

NAVAL POSTGRADUATE SCHOOL

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THESIS

FINANCING CONTINGENCY OPERATIONS IN THE NEW STRATEGIC ENVIRONMENT

ARE WE PROPERLY MATCHING RESOURCES WITH
MISSION REQUIREMENTS?

by

Stephen P. Banus

June 1997

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NEW STRATEGIC ENVIRONMENT**

ARE WE PROPERLY MATCHING RESOURCES WITH MISSION REQUIREMENTS?

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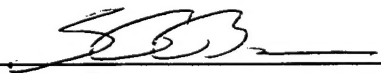
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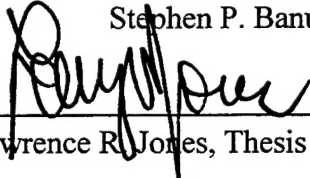
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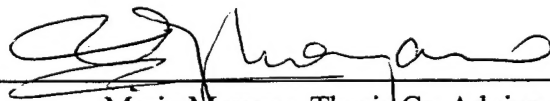


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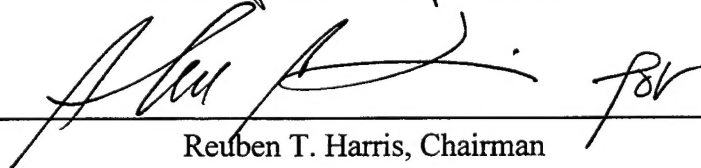
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ABSTRACT

The purpose of this study is to assess risks associated with the way in which U.S. armed forces contingency operations are financed. This assessment includes: (1) An analysis of the strategic operating environment. This analysis reveals significant post Cold War trends that suggest past methods of financing contingency operations are no longer appropriate. (2) A study of how contingency operations are currently financed and an assessment of the risks associated with these methods. This section tracks the flow of funds for three recent contingency operations. (3) A new approach to financing contingency operations to mitigate the risks associated with a changing strategic environment and more efficiently allocate resources.

The major findings are that the post Cold War strategic environment is changing in ways that are likely to increase the frequency and scope of contingency operations. Current methods of financing contingency operations are highly controlled, inflexible and inadequate for meeting national security needs. Mission financing is an approach to resourcing contingency operations that facilitates adaptation to the needs of a changing strategic environment to provide a better match between resources and mission requirements.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACOM	Atlantic Command
AFP	Adaptive Force Package
AIS	Annual Inspection Summary
AOR	Area of Responsibility
AWACS	Airborne Warning & Control System
BES	Budget Estimate Submission
BMAR	Backlog of Maintenance & Repair
C ²	Command and Control
CINC	Commander in Chief
CJTF	Commander Joint Task Force
CJCS	Chairman Joint Chiefs of Staff
CO	Commanding Officer
DIA	Defense Intelligence Agency
DPG	Defense Planning Guidance
DoD	Department of Defense
FDO	Flexible Deterrent Option
FMFPAC	Fleet Marine Force Pacific
FY	Fiscal Year
GAO	Government Accounting Organization
GDP	Gross Domestic Product
ISA	Interservice Agreement
IFOR	International Force
JCS	Joint Chiefs of Staff
JPC	Joint Project Code
JTF	Joint Task Force
LRC	Lesser Regional Contingency
MEU	Marine Expeditionary Unit
MFP	Major Force Program
MPERS	Military Personnel
MPF	Maritime Prepositioned Forces
MRC	Major Regional Contingency
MRP	Maintenance of Real Property

NCA	National Command Authority
NEO	Noncombatant Evacuation Operation
NMS	National Military Strategy
NSS	National Security Strategy
O&M	Operations and Maintenance
OMB	Office of Management & Budget
OOTW	Operations Other Than War
OSD	Office of Secretary of Defense
PPBS	Planning Programming and Budgeting System
POM	Program Objectives Memorandum
PWC	Public Works Center
SCN	Ship Construction Navy
SORTS	Status of Resources & Training System
SWAG	Sophisticated Wild Ass Guess
UN	United Nations
XO	Executive Officer

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I. INTRODUCTION

A. BACKGROUND

The close of the Cold War marks the end of nearly 50 years of defense planning and force structure alignments intended to counter a single well defined threat. The strategic environment has now changed. Defense planning must now deal with more vaguely defined and unpredictable threats to national security interests. These threats translate into contingency operations such as those recently conducted in Haiti, Somalia and Bosnia. These events, that are increasing in frequency and scope, represent unplanned incremental costs that current Department of Defense (DoD) planning, programming and budgeting systems may not be designed to handle. If current methods of financing contingency operations are now inappropriate, then these incremental costs will inevitably show up in a mismatch between national security requirements, and force structure capabilities and readiness.

B. PURPOSE

The purpose of this study is to serve as a risk assessment for the way in which contingency operations are financed. This thesis analyzes the strategic environment, reviews recent contingency operations and studies their methods of financing. Suggestions are made on how to improve current financing methods, and a mission financing approach is offered as a means to develop a closer match between national security requirements and defense capabilities. After reading this chapter, the reader should:

- 1) Recognize the importance of adapting methods of financing contingency operations to meet the needs of a changing security environment.
- 2) Understand the incentives and potential advantages inherent in a mission financing method of financing contingency operations.

C. SCOPE

This thesis focuses on trends of change in the strategic environment and the effects these trends may have on future readiness and capabilities. The study also provides an overview of how a mission-driven method of financing can provide incentives for more effective allocation of defense dollars. Although readiness reporting and the creation of appropriate accounting systems are analyzed, detailed presentations at this level fall beyond the scope of this thesis. Other important areas of study that are beyond the scope of this thesis include:

1. The status of military progress toward a common accounting and database system.
2. The development of cost accounting and reporting standards for accelerated depreciation of capital equipment involved in contingency operations.
3. How DoD financial management initiatives match with operational initiatives such as Joint Vision 2010.
4. The role that advancing technology has on the speed and accessibility of cost information for decision making.

D. RESEARCH QUESTIONS

The following research questions are addressed in this thesis:

- Primary: Are current methods of financing contingency operations appropriate to meet national security needs of the post Cold War strategic environment?
- Secondary: How has the strategic environment changed since the end of the Cold War?
- What effect has the change in the strategic environment had on the scope and frequency of contingency operations?
- How have recent contingency operations been financed?
- Is there an alternative and more effective approach for financing contingency operations to meet the needs of the new strategic environment?

E. ORGANIZATION

This thesis is divided into five chapters. Chapter I provides introductory information, thesis purpose, research questions, scope and organization.

Chapter II provides an overview of fundamental changes taking place in the global strategic environment. These trends include: (a) The change from a focused threat to more vaguely defined and unpredictable threats. (b) Declining Defense budgets. (c) The economic and political breakdown of third world nation states. (d) The changing concept of force use.

Chapter III identifies potential problems and risks associated with current methods of financing contingency operations. This is done by: (a) A review of three recent contingency operations and the methods used to finance them. (b) A study of readiness

trends to document the increasing strain these operations are likely to place on future military capabilities (using current methods of financing). This section also offers suggestions for improving accuracy in readiness reporting.

The emphasis of Chapter IV is the introduction and advantages of a mission financing method of matching Defense policy responsibilities with budgeting authority.

Chapter V completes the thesis with conclusions, recommendations and areas for further research. Some of these areas include: (a) A comprehensive review of the status of a DoD-wide common accounting system. (b) A study of capital budgeting methods that might be applicable to Department of Defense needs. (c) The advantages of an output-oriented readiness reporting system.

It is hoped that this study will: (1) Develop an accurate picture of current realities in DoD resource allocation methods. (2) Provide a vision of where we should be heading. (3) Stimulate a desire to close the gap between current realities and where we need to be in the future.

II. A CHANGED STRATEGIC ENVIRONMENT

Chapter II focuses on assessing the emerging strategic environment. The importance of evaluating this dynamic environment is vital since it is the first step toward determining an applicable resource allocation policy that can meet current and future national security requirements. There are at least four major trends in place that significantly affect the U.S. defense strategic environment. These are:

- > The Change from a Focused Threat to More Vaguely Defined and Unpredictable Threats
- > Declining Defense Budgets
- > The Political and Economic Breakdown of Third World Nation States
- > The Changing Concept of Force Use

The remainder of this chapter addresses these trends in more detail.

A. THE CHANGE FROM A FOCUSED THREAT

The 1996 National Security Strategy (NSS) states that the national security focus of the last 50 years has been to contain communist expansion while deterring nuclear war. The threat was well defined, universally agreed upon and provided a blueprint for defense spending. This focused threat has evolved into a constantly changing and complex set of challenges to the nation's security. These challenges include:

- 1. Deterring and Defeating Aggression in Major Regional Conflicts.**
We must be able to counter threats to national interests in more than one region if necessary.

2. Contributing to Multilateral Peace Operations. This includes bolstering new democratic governments through participation in multilateral peacekeeping and peace enforcement operations.

3. Supporting Counterterrorism Efforts, Fighting Drug Trafficking and Other National Security Objectives. These missions include: noncombatant evacuations, special forces assistance to nations and humanitarian and disaster relief operations (NSS, 1996, pp. 13).

To meet these military challenges, it is important to obtain a clear picture of the current status of defense force structure, planning, and use of force assumptions. The remainder of this section discusses how DoD force structures and planning assumptions have changed from the Cold War era to present.

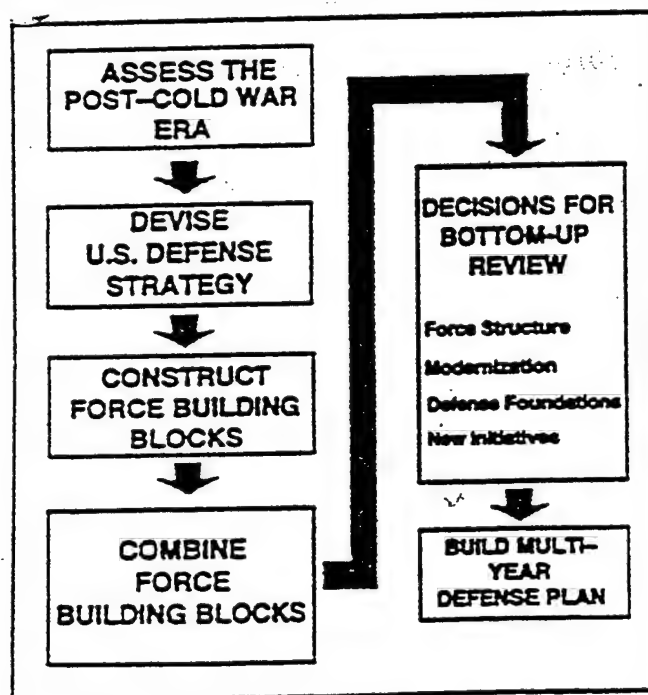
During the Cold War, the DoD had requested and built a force structure that was designed to conduct a major war in Europe and fight two Major Regional Conflicts (MRCs). These conflicts were seen as communist inspired and probably involving an attack on South Korea and an effort to interrupt oil supplies to Japan and the West.

The major defense effort was on massing forces along Eastern European borders in an effort to deter a Soviet onslaught. Maintaining these forces was extremely expensive. The large military budgets of the period were justified by Pentagon claims that approximately 50% of defense costs involved preparing for and maintaining a deterrent against communist attack.

Following the attempted rival coup and the breakup of the USSR, it was obvious to taxpayers, Congress and belatedly to the military leadership that Russia and the CIS no longer represented a credible threat of a massive attack in Europe. This diminished threat left a U.S. force structure that was seemingly obsolete and under increasing pressure to ante up a "peace dividend". The reasoning in Congress and throughout most of the United States went something like this: If defense budgets were built on a Cold War scenario, which the DoD claimed accounted for about 50% of total expenditures, and that threat no longer appeared viable, then according to the Pentagon's own estimates, a 50% defense

budget reduction could be obtained without sacrificing the ability to protect national interests.

Colin Powell, then Chairman of the Joint Chiefs of Staff (CJCS), observed these developments and developed a strategy for the U.S. military to manage its own future. It was obvious to Powell that if the military did not shape the inevitable drawdown then Congress, and possibly future administrations, would direct DoD force structures and budgets in ways that might not be conducive to long term national interests. Colin Powell took charge of directing the military's future force structure and supporting budget requirements by initiation of the Bottom-Up Review (Krieger, 1993, pp. 9). This was an attempt to match post Cold War mission requirements with expected future mission needs. Figure 2.1 shows the methodology of the Bottom-Up Review.

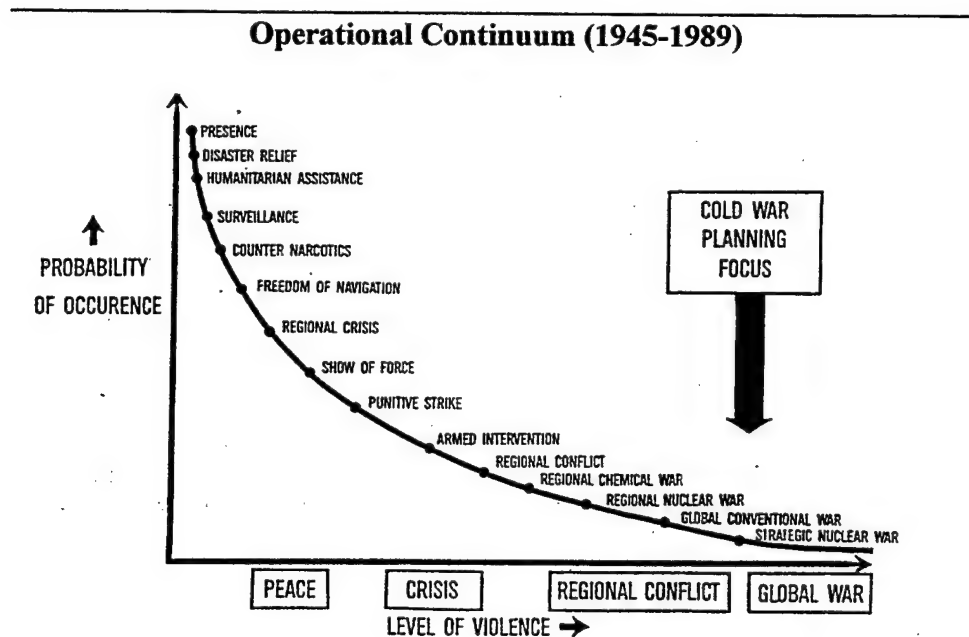


Source: Bottom-Up Review, 1993, pp. 3

Figure 2.1 The Bottom-Up Review Lays the Foundation for Change From a Focused Threat

The idea was to find out what the military really needed in order to conduct its new post Cold War roles and missions, and then rightsize forces to meet defense needs in support of national security requirements. This review determined that a 25% cut in force structure and DoD budgets was feasible.

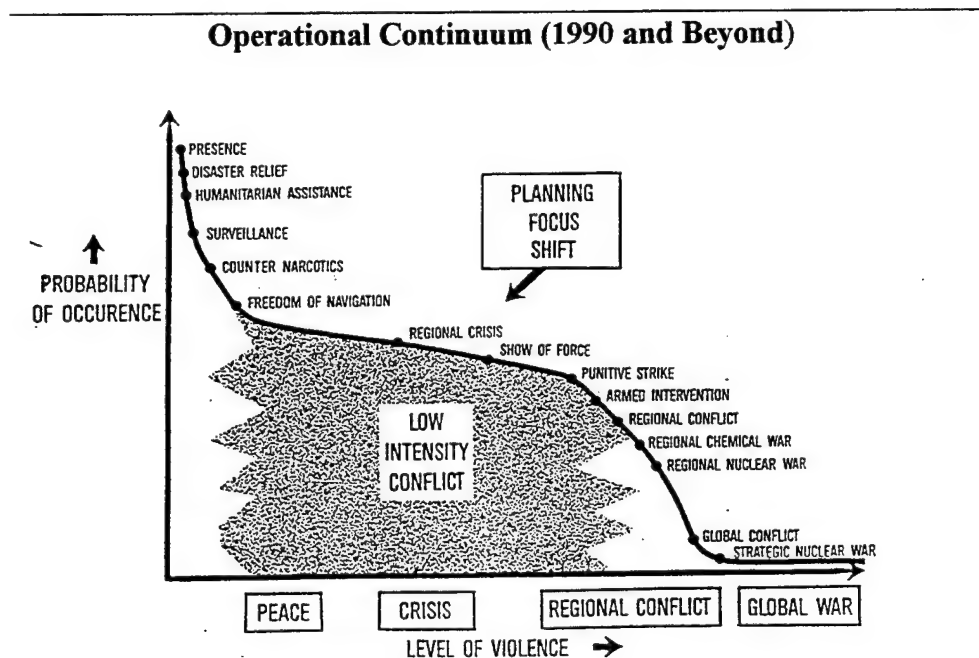
Even after the Bottom-Up Review, defense planners were still reluctant to give up what remained of the Cold War roles and missions. Maintaining two MRC capabilities remained a force driver, but at the same time contingency operations that had once been constrained by the Cold War balance of power, were beginning to play a bigger role in military operations and budget requirements. As these contingency operations expanded in scope and frequency, the DoD needed to somehow align capabilities with national security needs. Figures 2.2 and 2.3 show this shift in mission requirements and emphasis since the end of the Cold War.



Source: NPS, NS3230 Working Papers

Figure 2.2 Cold War Planning Focus on the Right Side of Operational Continuum

The 1945-1989 planning focus was to buy a force structure that fit the needs of the right side of the operational continuum. The assumption was that other "less important" operations to the left of the continuum could be taken care of as required with the assets and capabilities obtained from meeting the needs of the right side of the continuum. But, as left end of continuum (contingency operations) became more frequent and important to national security requirements, problems may emerge with previous assumptions of building force structures for the right side of the continuum.



Source: NPS, NS3230 Working Papers

Figure 2.3 Planning Focus Shifts to the Left

In the new strategic environment, pre-1989 force planning logic has at least two major flaws. (1) Those "other" operations on the left side of the continuum now represent a greater probability of occurrence than previously anticipated. (2) The previous force structure, methods of planning and budgeting that were built in the Cold War era are not now well suited to meet new national security requirements. Because of this, *we should be budgeting for and building forces to meet the needs of where we actually operate.*

(e.g., The low intensity left end of the chart as seen below.)

Current force structure and budget authority reductions actually exceed the Powell anticipated reductions of 25 percent and a decline of 41 percent is projected by the year 2000 (1985-2000 DoD Budget Authority). These reductions and the expanding demands of operations on the left end of the continuum (contingency type operations) now force the DoD to hedge on their earlier assumptions of being able to fight two MRCs. This fact and the likelihood of continued tightening budget constraints can be seen in the President's changing statements about U.S. military capabilities in the National Security Strategies as seen below (NSS, 1994, 1995, 1996).¹

1994: *Be able to conduct 2 MRC.*

1995: *Be able to conduct 2 nearly simultaneous MRC.*

1996: *The forces the Administration fields today are sufficient, in concert with regional allies, to defeat aggression in two nearly simultaneous MRCs.*

What happens now to DoD force structures if it becomes clear that the United States really does not have a requirement to conduct even two MRCs? For example, what if North and South Korea move toward unification (as did East and West Germany) and thus eliminate one of the primary assumptions upon which the two MRC capability is

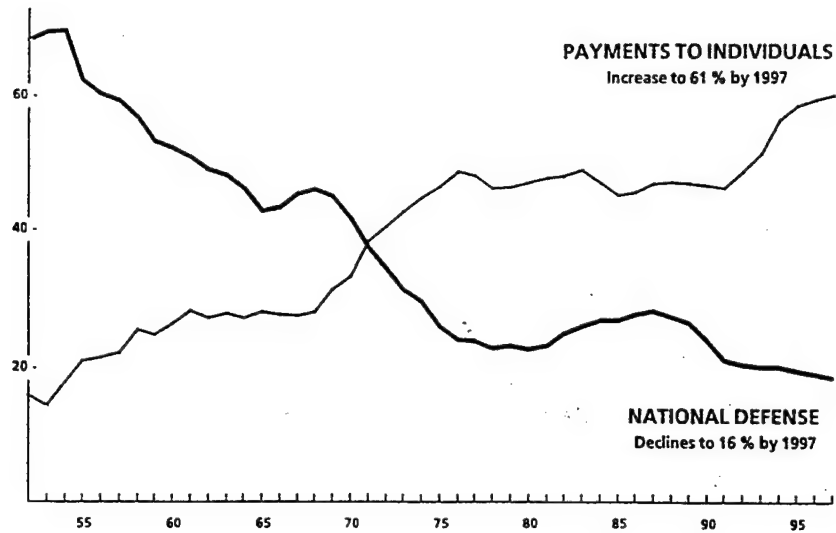
built? Since force planners within the Pentagon have been holding the two MRC requirement as a force and budget driver for so long, it is likely that the elimination of realistically conducting two MRCs would also bring a renewed call for more "peace dividends" and further force structure cuts. Calls for further cuts may not leave the United States with the mission capabilities required to conduct the operations on the left end of the continuum that are becoming more important and frequent.

B. DECLINING DEFENSE BUDGETS

Because Defense budgets will continue to be squeezed it is absolutely necessary to be as efficient as possible with the dollars we are allocated. Evidence of the likelihood of increasing constraints on Defense budgets can be shown in two ways.

1. Transfer Payment Spending Climbs as Defense Spending Declines

Since 1985, DoD outlays as a share of Gross Domestic Product (GDP) have been steadily decreasing. Defense outlays have decreased to below four percent of GDP as compared to about twelve percent at the end of the Korean War, and a peak of about six percent during the Reagan defense buildup in the Mid-80s. At the same time, entitlement spending has continued to rise dramatically.



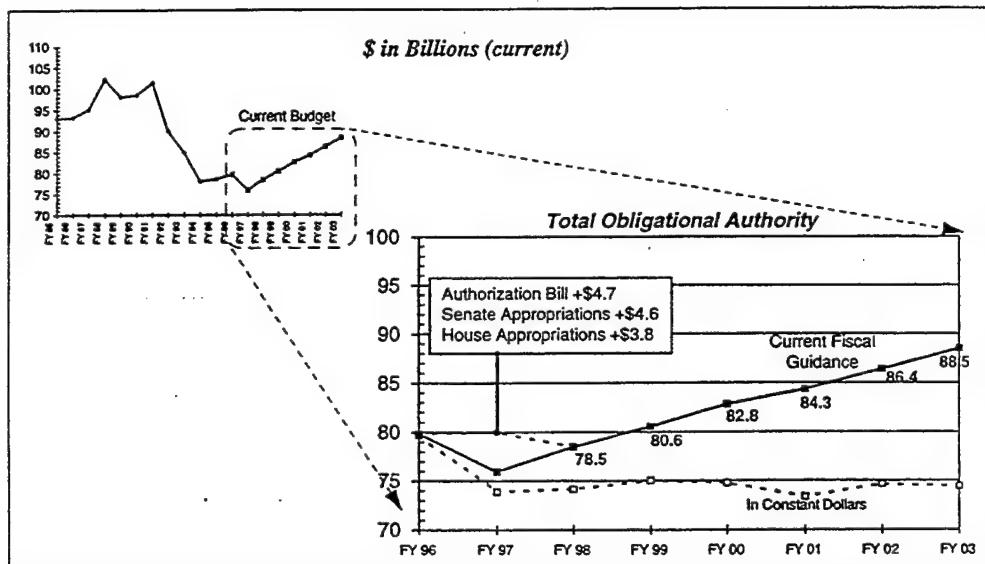
Source: Jones and Bixler, 1992, pp. 158.

**Figure 2.4 Transfer Payments are Likely to Continue Climbing as
National Defense Spending Declines**

As transfer spending rises and efforts to balance the budget continue, discretionary spending, of which defense is the largest portion, is likely to be asked to make up the zone of difference.

2. Service Budgets Project Constant Levels (At Best)

Using the Navy as an example, Figure 2.5 shows that projected budgets will at best remain constant in real dollar terms.



Source: FY 98/99 DON Budget

Figure 2.5 Budgetary Authority Not Expected to Increase in Constant Dollars²

Consequently, as the post Cold War era force structures and capabilities decline, budgets are also likely to represent an increasing constraint. The negative effect of these trends was pointed out by the current CJCS, General John M. Shalikashvili, in testimony before the Armed Services Committee when he stated a \$2 billion cut (less than 1%) in defense funding could be expected to reduce defense readiness from C1-C2 to C2-C3.³ The CJCS is signaling that relatively small losses (or drains) of funding are now likely to have significant marginal effects on capabilities.⁴

C. THE BREAKDOWN OF THIRD WORLD NATION STATES

In addition to preparing for major regional contingencies and overseas presence, we must prepare our forces for peace operations to support democracy or conflict resolution. (NSS, 1996, pp. 22)

The above statement of U.S. policy makes it clear that ensuring stability and supporting democracy around the world is in the nation's interest. Also implicit in this statement is that U.S. armed forces will be used to support those interests. This section describes how economic scarcity, overpopulation, disease and small arms transfers are accelerating civil strife, threatening budding democracies and causing economic and political breakdown in third world nations. This in turn increases the likelihood of future U.S. involvement in contingency operations.

1. Small Arms Transfers Are On the Rise

Small Arms are now proliferating throughout the world at an alarming rate (CRS, 1994, pp. 3). The motive is cash and the result is increasing international instability. The origins of these transfers include:

-
- > Ex-Warsaw Pact countries in search of cash.
 - > Increased light weapons sales from China, Egypt and South Africa.
 - > Former light arms importers who are now manufacturing and exporting.
 - > Origins unknown (including within the United States).

Source: (Goose and Frank, 1994, pp. 87)

The negative consequences of this proliferation of small arms has already been seen in Rwanda, Somalia and Bosnia. Light weapon transfers have allowed Somalian clans to challenge U.S. troops, fanned the flames of genocide in Rwanda, and undermined international peacekeeping efforts (land mines are a special area of concern) in Bosnia.⁵

Although small arms sales and landmines are difficult to monitor and less likely to be disclosed than major weapon sales, the Clinton Administration has shown leadership in efforts to strengthen international laws. The U.S. State Department and the Arms Control and Disarmament Agency are developing mechanisms to control the export of landmines. Perhaps this initiative and framework for negotiations will lead to more complete disclosure and eventual control of the transfer of other small arms. But, until that happens, light arms transfers will result in a more unstable international environment. The Somalian and the Bosnian Operations are examples of U.S. involvement due in part to instability caused by this factor. The future will undoubtedly bring even more contingency operations because of the rise in small arms transfers. These operations could be costly both in terms of casualties and higher defense costs.

2. Disease and Manmade Environmental Disasters

Disease, environmental depletion, and civil war are already creating large scale border upheaval throughout Africa. Refugee migrations are causing borders in many countries to become largely meaningless. For example, 400,000 Sierra Leonians are internally displaced, 280,000 more have fled to Guinea, 100,000 have gone to Liberia, at the same time that 400,000 Liberians have gone to Sierra Leone. Rwanda, Uganda and Zaire have refugee flows to an even greater degree.⁶ This displacement of people stresses already weak sanitary conditions, spreads disease and creates huge humanitarian assistance questions for Africa, the United Nations (UN) and in many cases the United States. Recent examples of U.S. forces involvement due to these factors include formation of a Joint Task Force (JTF) to alleviate suffering in Rwanda and recent Noncombatant Evacuation Operations (NEO) for Zaire.

While the factors of disease, environmental depletion and economic scarcity are already contributing to instability throughout the African continent, this same scenario is also unfolding in other regions. This situation is fertile ground for the emergence of both

autocratic governments and threats to U.S. national interests. As an increasingly large number of people lose any hope of economic prosperity, many will choose to follow non-democratic leaders who promise to find and attack the cause of problems. These regimes, as Hitler and Saddam Hussein did, might garner power by pointing to an outside "enemy" or to unsympathetic factions within the region as a way to solidify power and control.

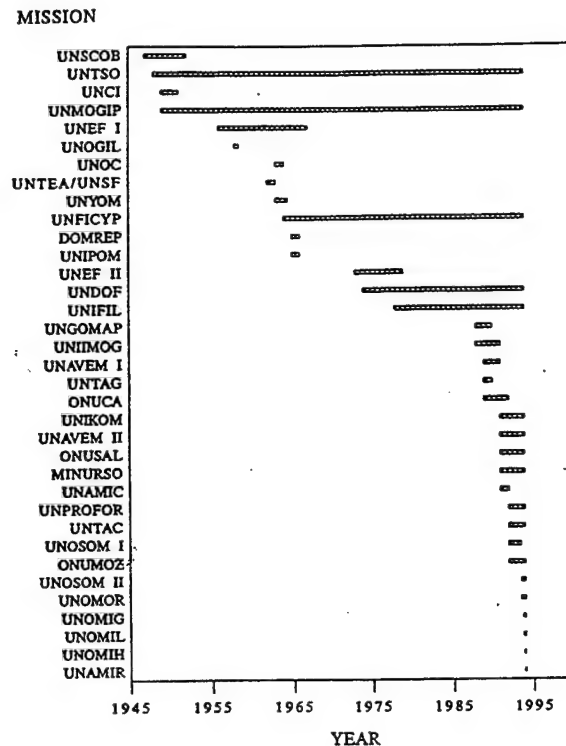
So, as scarce resources and dwindling economic fortunes place a greater strain on many peoples around the world, the Saddam Husseins of the future will have more opportunities to threaten U.S. interests (Kaplan, 1994, pp. 12). This point is not overlooked by the 1996 NSS when it states:

1996 National Security Strategy

One cannot help but conclude that population growth and environmental pressures will feed into immense social unrest and present a very real risk to regional stability around the world. (NSS, 1996, pp. 26)

3. The Rise in UN Operations and the Role of U.S. Leadership

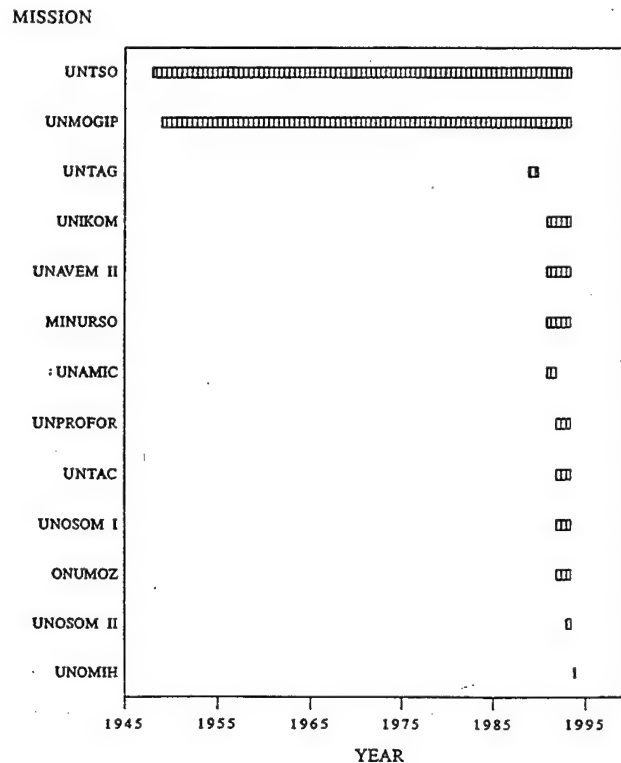
The collapse of the Soviet Union brought about a new era of UN peacekeeping. In the past, the super-power balance held these operations in check. "Interference" could turn to escalation, and direct confrontation was to be avoided. But, in recent years, as seen by Figure 2.6, UN peacekeeping activities have increased dramatically.



Source: Segal and Eyre, 1994, Figure 1.

Figure 2.6 UN Efforts to Mitigate Suffering are on the Rise

In cases where the scope and requirements of a crisis outstrip UN capabilities, the assistance of U.S. forces is likely to be requested. Figure 2.7 shows the recent increasing U.S. participation in UN peacekeeping and humanitarian operations.



Source: Segal and Eyre, 1994, Figure 2.

**Figure 2.7 U.S. Efforts in Humanitarian Operations
Increase as the UN Is Overwhelmed**

In summary, U.S. participation in peace and humanitarian operations (contingency type operations) is likely to become an increasingly important part of U.S. foreign policy. Escalating instability, societal breakdown and spreading violence in many Third World nations are likely to place increasing demands on the United Nations. Certain crises will exceed UN capabilities. In these situations, where national interests are perceived at stake, U.S. armed forces are likely to participate. Defining those interests, and determining when and how U.S. forces will be committed is discussed in the next section.

If not in the interests of the state, do not act. If you cannot succeed, do not use troops...the enlightened ruler is prudent and the good general is warned against rash action. Thus the state is kept secure and the army preserved.⁷ SUN TZU

D. THE CHANGING CONCEPT OF FORCE USE

The purpose of this section is to describe the changing criteria for determining when and how U.S. forces are to be employed in contingency operations. This will be presented as follows. The concept of force use as articulated in the Weinberger Doctrine will provide a starting point from which the recently changing views on force use as described in the 1996 NSS will be discussed. This changing concept of force use adds to an environment where there is a greater possibility of utilizing U.S. armed forces to carry out a broader array of national security objectives.

1. Concept of Force Use Articulated in the Weinberger Doctrine

Today's concepts of when and how to employ U.S. forces, are largely based on the ideas of then Secretary of Defense Casper Weinberger's 1984 speech entitled "The Uses of Military Power." This speech outlined six major tests to be applied by policy makers prior to committing U.S. forces abroad. Weinberger's criteria are shown below:

Concepts of the Weinberger Doctrine

1. Do not commit forces to combat unless vital interests are at stake.
2. Always employ troops in sufficient numbers and support to enable them to win.

3. Clearly define political and military objectives.
4. Closely monitor the relationship between objectives and the size or composition of American forces.
5. Determine if reasonable assurance of support from the American people exists.
6. Commit forces only as a last resort.

Source: Jordon, Taylor, Korb, 1986, pp. 302

The Weinberger Doctrine can be summarized with the following statement: "Be very cautious about committing U.S. forces to combat, but when you do commit them, do so overwhelmingly" (Owens, 1995, pp. 29). This doctrine was rooted in three factors. The first factor was the strong distaste of the American people and the military for either involvement in another Vietnam type conflict or in a repeat of the bombing of the Marine barracks in Beirut (Powell, 1995, pp. 302-303). The second factor was that in the bipolar Cold War era, events overseas were likely to be seen (rightly or not) in the context of Soviet expansionism and could thus be clearly defined as negatively affecting our national interests. The third factor influencing Weinberger's call for a restrictive use of force was that any intervention by the U.S. during this period brought implications of global escalation and the possibility of nuclear war (Owens, 1995, pp. 28).

2. Changing Views of Force Use

While those who currently decide when and where to commit U.S. forces may feel less constrained by the factors that shaped the Weinberger Doctrine, their decisions are as complex and difficult as ever. On the one hand, committing forces to a regional contingency is unlikely to result in either an escalation outside the area of interest or in a nuclear threat of Cold War proportions.⁸ On the other hand, events unfolding overseas (no longer as clearly delineated in a bi-polar world) are now much more difficult to define as vital to U.S. interests. As a result, a doctrinal shift is occurring. Some say there is

evidence that the assumptions of force use in the Weinberger Doctrine may deserve a closer look, and that the U.S. armed forces can and should be used in a broader array of deterrent, peacekeeping and humanitarian roles. Evidence of this can be seen below in Admiral William A. Owens' assumptions about force use.

Admiral Owens' Pragmatic Concept of Force Use

- > The United States can use its military forces effectively, without risking heavy casualties.*
- > Credible, proportional use of force, when required, is an important element in demonstrating U.S. will to be an effective deterrent and coalition partner and is therefore, in the long-term national interest.*

Source: Owens, 1995, pp. 29

The 1996 National Security Strategy (NSS) combines these concepts on force use and outlines three basic categories of situations that would call for the use of armed forces. These three categories are: (a) Vital U.S. interests are affected, (b) Important but not vital U.S. interests affected, and (c) Humanitarian operations when its "the right thing to do." The next sub-sections cover these categories and recaps how the changing concept of force use is likely to create more opportunities for contingency operations.

a. Category of Force Use #1: Vital U.S. Interests are Affected

Vital interests are defined as threats to national survival, security or of economic importance. The President states; "We will do whatever it takes to defend these interests." (NSS, 1996, pp. 18) The use of "decisive" military forces is directed in these situations. An example of this category is the use of force in reaction to Iraq's invasion of Kuwait when U.S. and worldwide oil sources were threatened.

b. Category of Force Use #2: Important But Not Vital U.S. Interests Affected

These situations do not affect national survival but do have the potential to affect national well-being. The contingency operation in Haiti is an examples in this category. Haiti represented a combination of situations including a budding democracy that needed help and a humanitarian assistance needs that the U.S. leadership felt represented important national interests. In these types of cases U.S. forces would be used only if the following criteria are met:

- > Military forces could advance our interests.
- > It is likely that armed forces could achieve their objectives.
- > The costs and risks of using armed forces have been weighed against the value of those objectives. Costs refer to the nation's treasure including human, material and financial. Being able to define, accurately track and access the costs of these operations is a prerequisite for an adequate cost/benefit analysis.⁹
- > Other means (such as diplomatic and economic) have been tried and failed to achieve objectives.

c. Category of Force Use #3: When its "The Right Thing to Do"

"We cannot save all women and all children. But we can save many of them. We can't do everything, but we must do what we can."

President Clinton

Source: The New York Times, November 28, 1995. Clinton's words on Mission to Bosnia.

In this speech and in the NSS, the President established as policy that the U.S. military's unique transportation, medical, communication, and supply capabilities may be called upon to respond to human suffering or catastrophe relief missions. In these

cases, although vital national interests (other than moral interests) are not affected, the U.S. military may represent the only organization capable of dealing with a situation that would overwhelm virtually any other nation or organization. The relief mission in Rwanda is an example in this category. The threat to the U.S. and its forces was minimal, the military performed essential lifesaving roles, and turned the operation over to international relief agencies.

d. Contingencies And The Changing Concept of Force Use

The larger issue is not whether the Weinberger Doctrine or other recent doctrinal statements on force use are correct, but that the concept of force use is changing and the newer doctrinal adaptations are fertile ground for increasing the frequency and scope of contingency operations.

E. SUMMARY

In summary, the changing strategic environment is having a profound effect on the Pentagon's way of doing business. Building a force structure based on past threat assumptions is no longer justifiable. Declining defense budgets are forcing a search for the most efficient use of dollars, and contingency operations are on the rise for at least four reasons.

- > Cold War era constraints no longer apply.
- > As events occur that outstrip the capabilities of every other organization or government, the U.S. is increasingly turned to for leadership .
- > The political and economic breakdown of third world nation states threatens U.S. national interests.
- > The changing concept of force use makes it easier for U.S. troops to be committed abroad.

These factors not only add up to increasing contingency requirements but also to increasing costs associated with these unplanned and unbudgeted operations. Chapter III discusses these increasing costs and how they are currently financed. Also discussed are the short and long term implications of continuing to use these financing methods in light of the trends just discussed.

ENDNOTES

- ¹ Changes from the previous year's NSS are emphasized by underlining.
- ² Note that the FY 1998/1999 Department of the Navy Budget projects rising Total Obligational Authority in the Budget's outyears. This assumption is probably optimistic at best.
- ³ C1-C2: Units can undertake from the full to the bulk of wartime missions.
C2-C3: Units can undertake from the bulk to major portions of wartime missions. Units expected to be operationally ready strive to maintain at least a C-2 status. (GAO/NSIAD-96-111BR Military Readiness)
- ⁴ Two years after the CJCS made these statements, the OMB asked the Pentagon to "find" \$2 Billion to cover the costs of contingency operations in Bosnia. Bosnia and Readiness will be covered in more depth later in the study.
- ⁵ "In one incident in 1993, 150 tons of assault rifles, mortars, rocket launchers, land mines, and ammunition, mostly of Chinese and Chech manufacture, were found in a warehouse in Slovenia, intended for Bosnian Muslims." (Goose and Smyth, 1994, pp. 93)
- ⁶ In Sierra Leone, the Ivory Coast, and Ghana most of the primary rain forest is being destroyed at an alarming rate. In Sierra Leone, in 1961 as much as 60% of the country was primary rain forest, now only 6% is rain forest. In the Ivory Coast the proportion has fallen from 38% to eight percent. Virtually everyone in the West African interior has malaria. HIV is pervasive with over 8 million in Africa carrying the disease. (Kaplan, 1994, pp 27)
- ⁷ SUN TZU makes it clear that war is to be used only as a last resort.
- ⁸ Add to this the growing ability of U.S. forces to use precision guided weapons that allow the military to become a foreign policy tool while standing out of harms way.
- ⁹ See Chapter III for a more in-depth discussion on this topic.

III. HOW DOES THE DoD PAY FOR CONTINGENCY OPERATIONS?

The purpose of Chapter III is to determine if the methods used presently to finance contingency operations are appropriate for the changing strategic environment. This chapter has four sections. The first section discusses the source and standard budgeting processes that might be used to finance a generic contingency operation. The second section reviews three recent contingency operations and their financing sources in more detail. The third section looks at the effect that post Cold War contingency operations are having on readiness trends. This section introduces evidence that one method of financing contingency operations might be through a sacrifice of future military readiness and capabilities. The fourth section summarizes the findings of this chapter and also offers suggestions for obtaining greater accuracy in readiness reporting and improving current methods of financing contingency operations. Chapter III concludes with an emphasis of the need to adapt current methods of financing contingency operations to fit the requirements of the new strategic environment.

A. FINANCING CONTINGENCY OPERATIONS

This section discusses the source and standard budgeting processes that might be used to finance a generic contingency operation. Contingency operations are currently financed from two sources:

1. Already appropriated funds including holdbacks, reprogramming and transfers.
2. Supplemental funds appropriated by Congress.

1. **Already Appropriated Funds**

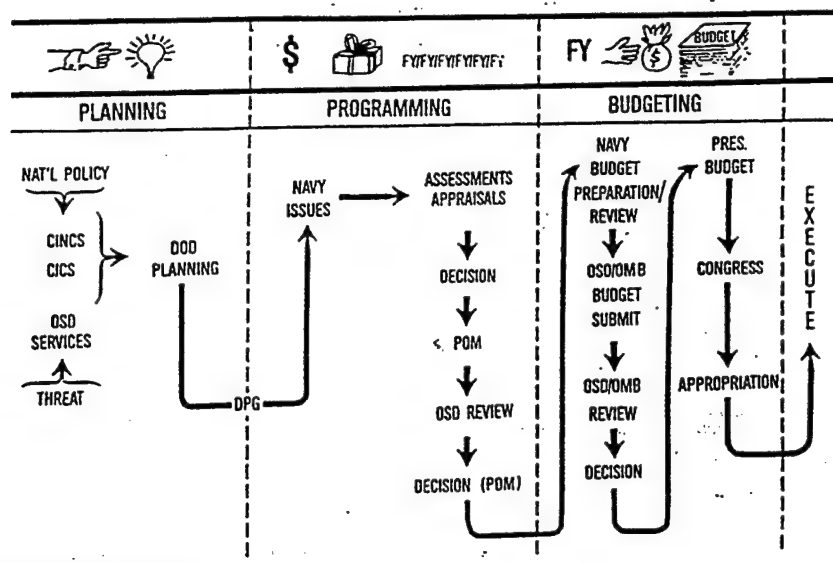
To understand the impact of using already appropriated funds for financing contingency operations, it is appropriate to first briefly explain how the DoD:

- > Determines what resources are needed to meet national security needs.
- > Makes funding requests.
- > Executes the funds appropriated to it by Congress.

A highly structured and formalized system, the Planning Programming and Budgeting System (PPBS),¹ was first implemented in 1962 to meet Cold War defense needs. After explaining this process of requesting, authorizing and apportioning funds, the techniques employed to use these funds for contingency operations are discussed.

a. The PPBS System for Obtaining Funds

The DoD Budget Process can be broken down into the formulation and execution phases. **The Formulation Phase involves:** (1) Preparation of Estimates, (2) Negotiation as spending requests transit the Executive and Legislative Branches, and (3) Enactment of spending measures. After Enactment, the Execution Phase of the Budget process commences. **The Execution Phase involves:** (1) Spending, (2) Monitoring and Control, and (3) Audit and Evaluation of the way in which obligated funds have been used. An overview of the PPBS process is shown in Figure 3.1.



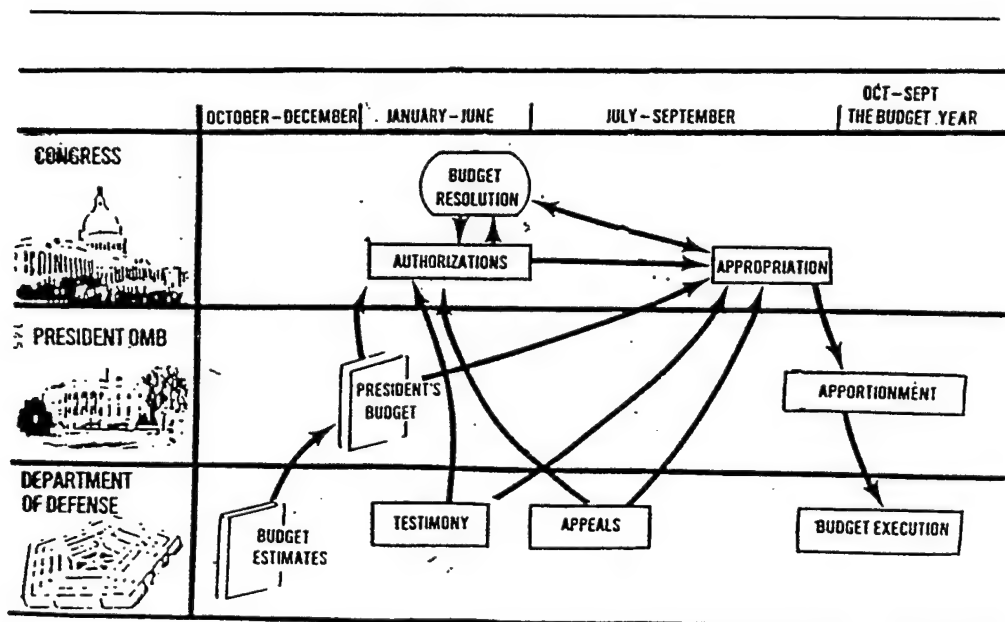
Source: NPS, NS 3230 Working Papers

Figure 3.1 The PPBS Process For Defense Resource Allocation

Preparation of Estimates. The DoD Budget Cycle starts with the National Security Strategy (NSS). This document establishes national security policy priorities of the President. A Defense Intelligence Agency (DIA) assessment of the threat is then combined with NSS priorities to build the National Military Strategy (NMS). This document describes how the Armed Forces intend to meet the assessed threat and carry out the priorities described in the President's NSS. The National Military Strategy (NMS) is then used to by the Office of the Secretary of Defense (OSD) in preparing the Defense Planning Guidance (DPG). The DPG indicates the assets, forces, and resources needed to carry out U.S. security needs.

It is upon this base that the OSD establishes priorities and guidelines for submission of budget estimates by the services. For the Navy, the DoD Comptroller provides guidance to the Comptroller of the Navy, who in turn provides guidance to the Fleet Comptrollers. Aggregated budget estimates then progress back up the chain of command until the Navy's budget estimate is eventually combined with the other services for SECDEF review and approval. These estimates, of which the Program Objectives Memorandum (POM) is a portion, are scrubbed by the Joint Chiefs of Staff (JCS), and the

OSD, and eventually become the OSD's Budget Estimate Submission (BES). This document is brought before joint OSD/OMB budget hearings, and after more scrubbing becomes the President's Defense Budget. The Defense Budget is then combined with other Executive Departments' budgets and is presented to Congress. As can be seen by the above process, the players who are able to justify and support their budgets at the fleet, Service, DoD and OMB levels are then in a position to present their requests to the Legislative Branch. But, there is no guarantee that the Legislative Branch will agree with the President's priorities. An overview of the Congressional budget process is shown in Figure 3.2.



Source: NPS, NS 3230 Working Papers

Figure 3.2 Congressional Budget Process

After formulation and submission of the President's Budget, Congress starts a process that often provides less funds than the President wants for particular programs. The first step is adoption of a framework for the next year's budget. This is called the Budget Resolution. The Resolution contains spending and revenue targets, and serves as a guide for specific programs considered during passage of authorizations and

appropriations laws. Authorizations and appropriations can be very specific as to the amount and way in which funds are spent. To support these specifics, the Services may be called upon at any time during the congressional budget process to explain or justify requested funding. The House and Senate Appropriations Subcommittees for Defense then recommend spending levels to the full committees.

The next step is enactment of the budget. The full committees scrub the budget further and submit the budget measure to the floor of the House and the Senate for a vote. Again, anywhere throughout this process, spending for individual programs can be modified up, down or even completely deleted. When spending and revenue measures are passed by Congress, they are sent to the President for signature. He can either sign, veto, or sit on the measure until it effectively is vetoed. Assuming the measure is signed, the next phase is Execution of the Budget.

At this point, money has been authorized and appropriated by Congress for Defense Department spending requirements. A problem for the DoD is that the format and language that the DoD submitted as part of the President's Budget is not the same as the authorization and appropriation format and language. Therefore, it is up to the OMB to decipher this spending language and translate it into a format that both meets DoD needs and certifies to the Treasury that the funds are being used as intended by Congress. This process determines the funds that are available for DoD programs and apportion these funds by fiscal year (FY) and quarter.

After apportionment, the Defense Department is finally able to spend. Spending is done according to a set of targets referred to as "control numbers," and must abide with established rules and processes.

Budget execution continues with monitoring and control. Monitoring assesses what is being spent in relation to planned spending. The accountants and budgeters have a set of criteria used to uncover variances between planned and actual spending. These criteria include tracking spending by amount, timing or schedule, volume and workload.

A Mid-Year Review is conducted to evaluate the level of spending and resource requirements to meet objectives for the remainder of the year. At this review, money is often reallocated from one program to another to compensate for variations between planned and actual spending as discussed above. A central purpose of monitoring and control is to remain within both the guidelines of the *Antideficiency Act* and the restrictions placed on reprogramming of funds by Congress.

Audits are also part of budget execution. Like taxes and death there is one thing in the budget process that is certain. That certainty is a visit from the OMB, the GAO or a host of other agencies eager to sniff out improper outlays or misuse of government funds. These audits generally come in at least three forms:

- > **Financial Audits** which reconcile outlays with appropriations.
- > **Management Audits** which evaluate efficiency and effectiveness of spending.
- > **Program Evaluations** which evaluate the need for programs (Also known as Policy Analysis).

The PPBS system may be summarized as follows. Based on the anticipated threat, a strategy is developed. Requirements of that strategy are then estimated and programs are developed to execute the strategy. Finally, the costs of executing approved programs are budgeted. Figure 3.3 shows this sequence.

Is This Cold War Era Process Capable of Adapting to the Needs of the New Strategic Environment?

THREAT--> STRATEGY--> REQUIREMENTS--> PROGRAMS--> BUDGET

Source: Practical Comptrollership, 1996, pp. C-2.

Figure 3.3 The PPBS Sequence for Formulation and Execution of Defense Funding

There is also an informal process involved in the development of national security requirements and the formulation and execution defense budgets. While the formal process described above sets up the rules of the resource allocation game, the informal process involves strategies on how to effectively play within the rules. Below are several issues pertaining to this informal process.

- > While Congress is certainly concerned with national security, of great concern to these elected representatives is DoD funding repercussions on home district jobs, contract spending and status of base alignment plans.
- > Typically, members of Congress are predisposed to defense spending needs along a spectrum that ranges from nearly always supportive to nearly always non-supportive. There are some members who traditionally vote to support defense requests. At the other end of the spectrum are those who almost certainly will vote against. In the middle are those who are swayed according to the specific argument and the political savvy of the players.
- > Much of what happens in the Legislative Branch is developed by Congressional staffers and takes place behind closed doors at the Subcommittee level. Because of this, it is important to keep informed of possible rumblings which could cause a threat to defense programs.

> **READINESS** is the buzzword. Appropriations are dependent on the Services' ability to justify readiness needs.

> The President's Budget must be supported by the Services. But, if subcommittee members wish to place a higher priority on certain programs, those testifying are obligated to be prepared and answer questions truthfully. Obviously this is a fine line to walk. But again, defense department representatives need to be prepared to answer questions about the things that interest members of the Subcommittee such as jobs, base alignments, readiness and contracts.

The Bottom Line

> The budget process is a huge competition for scarce taxpayers dollars.

> The players who know and can apply the formal and the informal rules are in the best position to compete effectively for scarce budgeted dollars.

> The PPBS System may be appropriate for the defense requirements of the Cold War era, (e.g., right side of the operational continuum) but what happens when unplanned and unbudgeted contingency operations disrupt this highly formalized and structured process?

b. Retention of Funds at Each Level

Since DoD budget holders at all levels realize that the likelihood of a "budget busting" contingency operation is high, it is becoming increasingly common to holdback apportioned funds in anticipation of releasing these funds as inevitable needs arise. Figure 3.4 shows the key players in the budget execution chain of command who might "tax" or holdback a portion of funds.

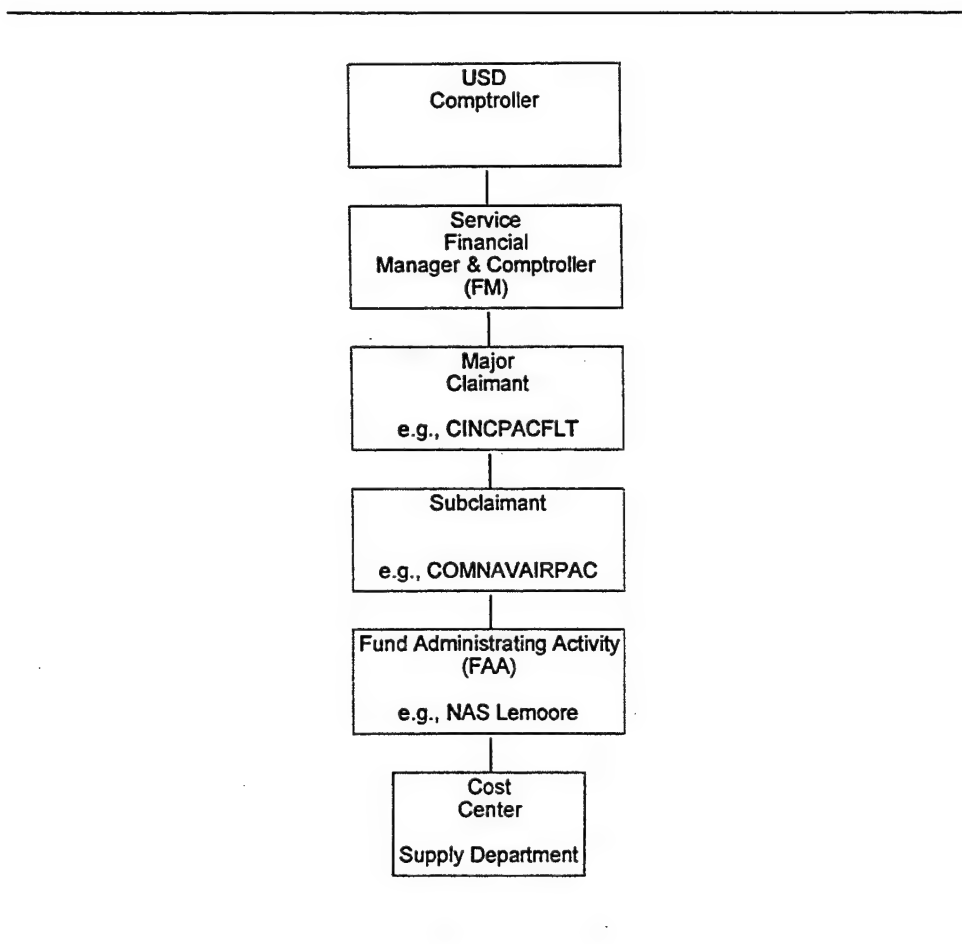


Figure 3.4 Holdbacks Are Common At All Levels

The benefit of this practice is to build in some flexibility for funding contingency operations. The cost is the unavailability of those funds for their intended purposes until the chances of needing them for an unplanned event have diminished. When these funds (referred to as year-end "sweep up" money) are released late in the fiscal year, the result is a rush to spend before the appropriation expires. As shown below, the year end spending spree is seen by Congress as inefficient and unintended use of tax dollars.

Congressional Testimony on Federal Agency's "Use It or Lose It" Policy

The subcommittee's probe has revealed that funds appropriated for specific programs are not being rationally obligated to achieve Congressionally intended objectives. Rather, much of the funds are being pushed out the final weeks of the fiscal year on questionable contracts and other spending. GAO investigations are documenting the fact the funds are being diverted from the purpose laid out by Congress, causing millions, perhaps billions, of dollars to be wasted on unnecessary projects and purchases during the last two months of the fiscal year.

Source: Congressional Subcommittee on Human Resources testimony to offer an amendment to HR-7590.

As shown from the Congressional Records transcript, the practice of rapidly spending "sweep-up" money at the end of the fiscal year has become a point of contention, and does little to build a relationship of trust and confidence between Congress and the Pentagon.

c. Use of Future Quarter Apportionments

An unanticipated contingency operation usually first affects the current quarter apportionments for the O&M accounts of the units or budget holders involved in

the operation. Once these funds are depleted, the funds apportioned for following quarters are generally used.

d. Reprograms and Transfers

As funds become depleted for units conducting operations, the Fund Administrating Activity (or higher) will issue a request to other units not directly involved in the operation to "scrub their budgets for excess funds." These current and future quarter funds from other units are then used in hopes of later being replenished by reprograms or supplemental requests. Reprogramming provides the flexibility to revise programs within an appropriation. The DoD sets thresholds based on cumulative increases and must then turn to transfers when these thresholds are reached. Transfer Authority is the authority to transfer funds between appropriations. The thresholds for making these transfers are established by the congressionally passed DoD appropriation and authorization acts and require approval by the Office of Management and Budget.

There are restraints on reprograms and transfers. Both reprograms and transfers may require congressional approval if the funding involves a congressional interest item or if they exceed legislated limits.

e Antideficiency Act Violation

One final note on the funding of a generic contingency operation. With all of this moving of funds, use of holdbacks, drawing from future period appropriations, reprograms and transfers, the objective in the minds of budget holders is avoiding a 1517 (Antideficiency Act) violation. An Antideficiency Act violation occurs when funds are obligated or expended in excess of amounts authorized. Discussions with comptrollers at several levels of the Defense Department financial chain of command indicate that this is an area of prime concern.²

Consequently, as an unexpected contingency operation depletes funds from appropriated accounts, the incentives and mechanisms in place require budget holders to find funds to pay for quickly depleting accounts while at the same time avoid a 1517 violation. Finally, budget holders look to supplemental funding to conduct the activities that were originally budgeted for but cannot now be done.

2. Supplemental Funds

The use of supplemental funds appropriated by Congress is the second method to pay for the contingency operations. Obtaining additional funds from Congress means being able to document and justify that already appropriated funds are insufficient to meet national defense needs. It also means having access to accurate and timely accounting, readiness and resource information. By being able to provide this information, the Services can build a relationship of trust and common purpose with the legislative branch. If information is suspect, congressional funders have a greater tendency to micromanage the way already appropriated funds are used and to question requests for supplemental funding. What kind of job has the DoD done recently in providing this information to Congress? The next section reviews three recent contingency operations and answers this question.

B. A REVIEW OF THREE CONTINGENCY OPERATIONS

Thus far the thesis has analyzed general methods and examples of how contingency operations are funded. Now, three specific contingency operations will be discussed. These operations are:

- > Operation Restore Hope in Somalia
- > Operation Sea Angel, the Bangladesh Disaster Relief Mission

> The Bosnian Peacekeeping Mission

This section discusses how these operations were financed and reviews some of the problems that could be associated with continued use of these methods for future operations.

1. Operation Restore Hope in Somalia

This section describes the original intent and changing nature of the operation and a breakdown of costs and how they were paid.

a. *The Changing Nature of Operation Restore Hope*

Originally involving relief for famine-stricken Somalia, Restore Hope provides a classic example of mission creep. Budgeting for contingency operations not only means utilizing proper methods of financing but also using proper policy decisions on the use of armed forces.

True to the form of many contingency operations, the first forces responding to a situation vital to U.S. interests are forward deployed. In the case of Operation Restore Hope, the initial force was the 15th Marine Expeditionary Unit (MEU) deployed on the amphibious assault ships USS Tripoli, USS Juneau and USS Rushmore. These enabling forces secured the seaport and airport of Mogadishu so that reinforcements of additional Marine and Army units could surge forward from bases within the United States.

The initial mission involved two objectives. The first objective was to provide security for relief supplies entering the country. The second objective was to protect food convoys moving within the country. Both of these objectives were successfully met. Within days, international relief supplies were arriving unhindered through Mogadishu's ports, and convoys were able to reach destinations. The effect of

U.S. forces was both immediate and positive. The mass starvation of the Somalian people was halted.

The scope of the mission then changed. No exit strategy had been developed before commitment of U.S. forces and an important question began to assume greater proportions. How could U.S. forces leave without a reoccurrence of the situation that brought them there? It was assumed that as soon as support was withdrawn that civil disorder and man-made, corruption caused famine would inevitably follow. So, after U.S. forces were in country, the mission changed. The new mission involved nation building and peace making through the elimination of sources of civil disorder. The result was disaster. U.S. forces had been committed to a mission for which it was neither trained, nor had specific measures for accomplishment.

Proper utilization of available doctrine on force use could avoid future problems of this type. Components of this doctrine include not committing forces to combat unless vital interests are at stake; always employing troops in sufficient numbers and support to enable them to win; and clearly defining political and military objectives. If available doctrine is used correctly, U.S. military capabilities and readiness will be more suited to meeting national security requirements, if not a mismatch is possible that could cost more than mere appropriated funds.

b. Breakdown of Costs and How They Were Paid

The cost for the first six months of Operation Restore Hope was \$101 million more than was available in the entire FMFPAC FY-93 O&M budget. (Flynn, 1994, pp. 53) This amount was obviously more than the units participating in this contingency could absorb, so a variety of techniques already discussed were used to finance this operation. These techniques included:

> **Using O&M funds apportioned for future quarters.** By the end of the first quarter of FY 93, FMFPAC (The major claimant for Marine units involved in Restore Hope.) was already dipping into funds allocated for the third quarter of FY 93. By the beginning of March 1993, (with over six months remaining in the FY) FMFPAC had expended 100% of its FY-93 O&M budget.³

> **Return of "excess" funds.** A message from FMFPAC was sent to Marine units throughout the Pacific. This message requested that units not directly involved in Operation Restore Hope to scrub their budgets and return "non mission essential" funds.

> **A request for supplemental funds.** The Marine Corps and the other Services submitted requests for supplemental funding to pay the additional costs of participating in Operation Restore Hope. Before this request went to Congress, the Office of Management and Budget requested that the DoD try to find sources within already appropriated defense funds to help defray the total request for new appropriations. Of the \$1.2 Billion supplemental request, the plan submitted involved over \$762 million in reprograms from already appropriated DoD funds. (Clymer, 1993, A 13:3)

Many in Congress believed that the DoD could not afford to absorb operations of this size without reducing future readiness or capabilities below prudent levels. Because of these concerns, the House of Representatives, in coordination with the Senate Appropriations Committee, crafted a supplemental funding bill that would not require the DoD to take the funds "out of hide." As stated by Representative John P. Murtha, (D-PA) of the House Appropriations Committee:

They were forced to do it (request the money through reprogramming) by the OMB. They (DoD) can't afford it, and they know they can't afford it. The Somalia relief operation had not been expected and reprogramming those funds would have taken the costs out of the hide of the Department of Defense (Clymer, 1993, A 13:3).

But, before the Senate version of this supplemental bill was voted on, the *New York Times* ran a story that blasted the House of Representatives for trying to spend funds that were not even requested by the DoD. The story stated that the DoD had

submitted a request that involved reprogramming funds from "lower priority" programs and that members of the House of Representatives was merely trying to deliver more pork to their home district (Clymer, 1993, A 13:3). This *Times* article must have caused much hand wringing in Congress because when the supplemental bill came before the Senate, it was rejected by a vote of 95-0. A House/Senate Conference Committee crafted a new bill that called for \$973 million in reprogramming. This bill did pass and was signed into law by President Clinton in July 1993.

What was the impact of using these methods of financing Operation Restore Hope? After going through a rigorous planning and programming process that required justification and prioritization of planned expenditures to meet current and future mission capabilities and readiness, the services were again hit with an unplanned for operation that resulted in a drain on already appropriated accounts. The result was an immediate and significant reduction of O&M funds for non-deployed activities throughout the Pacific. Directly affected was current combat readiness and capabilities. Major equipment maintenance and overhaul schedules were stretched out. Combat training was delayed or halted completely and plans for reconstituting (following Desert Shield/Desert Storm) Maritime Preposition Forces (MPF) were slid into future years' budgets.⁴ Training exercises were cut back and ammunition use (essential for effective combat training) was restricted. For example: Marine Force, US Pacific Fleet (FMFPAC), the command which contributed the majority of Marines for the operation, experienced a \$7.8 million shortfall for the support of normal pre-deployment training of its units (Flynn, 1994, pp. 63).

Other accounts affected by contingency related reprograms involved building maintenance, public works, utilities, road repair, child care, and many other "quality of life" activities (Flynn, 1994, pp. 53). Consistent shortfalls in these accounts undoubtedly have an effect on long term readiness and capabilities.⁵

2. Operation Sea Angel (Bangladesh)

This section covers Operation Sea Angel, and a breakdown of costs and how they were financed.

a. Operation Sea Angel

Operation Sea Angel (11-29 May, 1991) was an event of relatively short duration. The purpose of this mission was to provide disaster relief to a cyclone devastated region. The storm, with sustained winds of over 145 MPH and 20 foot tidal waves crashed into coastal Bangladesh. The disaster left over 150,000 people dead and over a million homeless. Without prompt action there was a real possibility for thousands of more deaths from disease and lack of clean water. Local government and international relief agencies were overwhelmed, and no other entity except for the U.S. military had the capabilities to respond quickly and effectively.

The U.S. did respond with the establishment of a Joint Task Force (JTF). Assigned to the JTF were primarily units on the way home after serving more than five months in the Persian Gulf. In an effort to reduce the risk of further deaths due to disease and starvation, the mission of the JTF was distribution of food, water, and medical supplies.

The operation involved assets that are normally assigned to a forward deployed Marine Expeditionary Brigade. These resources included helicopters, air cushion landing craft, small boats and a self sufficient base (USS Tarawa). U.S. forces also possessed an appropriate mix of medical teams, engineers and water purifying equipment.⁶

The JTF conducted over 2,000 air lifts to the stricken area. More than 5,000 tons of supplies were delivered by air and boat. Also, over a 250,000 gallons of fresh water was provided and at least 7,000 people were given medical attention (Stackpole, 1992). It is likely that no other organization in the world would have been

able to respond to this humanitarian disaster as quickly as the U.S. military. It is also likely that these types of disasters will happen again, and that the U.S. will continue to assume a leadership role in disaster relief operations.

b. Breakdown of Costs and How They Were Paid

Like most contingency operations, Operation Sea Angel was initially funded out of current and future quarter O&M accounts. The costs recorded by the Services involved mostly direct costs such as consumable supplies, fuel for airlifts and additional personnel costs (per diem). These costs were expended in the third quarter of FY-91 and a request was submitted halfway through the fourth quarter for reimbursement.

A full year after completion of the operation, reimbursement had still not been made. A Headquarters Marine Corps memo of June 1, 1992 stated that USMC cost of operations in support of Sea Angel had been absorbed by O&M accounts, and if reimbursement was not forthcoming, Marine Corps' training and supply accounts would foot the bill.⁷ This unplanned for and unreimbursed operation was eventually paid for from "lower priority" accounts.

Operation Sea Angel, relatively small in nature but requiring the unique assets and capabilities that only U.S. armed forces are capable of providing, represents the type of mission that promises to increase in frequency. Under current financing methods this could be a significant challenge, since the small size of these types of operations means there is almost no chance of receiving supplemental appropriations. Appendix C provides a recap of recent smaller (unplanned for and thus unbudgeted) contingency operations undertaken to protect national interests. The list includes more than 90 contingency operations conducted within the last four years. Each of these operations involves additional cost burdens that are in some way financed by borrowing from either current or future readiness and capabilities.

3. Bosnian Peacekeeping Operations

The Dayton Peace Accords translated into the deployment to Bosnia of almost 27,000 U.S. forces. The DoD originally estimated additional costs of supporting Bosnian operations at approximately \$2 Billion/year (GAO/NSIAD-96-120BR Bosnia). This subsection discusses the reliability of DoD cost estimates and covers Defense plans to finance this significant but unplanned for operation. Emphasis is placed on the three financing methods outlined below:

- > Shifting Funds Forward From Future Quarters
- > Reprogramming Requests
- > A Supplemental Appropriations Request

a. Shifting Funds From Future Quarters

As discussed, using funds apportioned for later in the fiscal year is a common first step in contingency financing. The problem associated with this method is that if funds are not quickly obtained to replenish these operating accounts, then discretionary OPTEMPO funds are depleted before the end of the fiscal year. When this happens training and other activities, including flight events in squadrons or days at sea for ships, must be curtailed or suspended. Reductions in previously budgeted activities mean one of two things: (1) Readiness and/or military capabilities suffer either now or in the long run, (2) The budgeted activities, considered high enough priority to receive funding from the highly structured and scrutinized PPBS System, were really not important enough to impact readiness or military capabilities. The former is more likely.

In April 1996, the Army estimated that failure to find additional funds to replace those funds brought forward from future quarters to pay for Bosnian Operations would cause a curtailment of training throughout the Service.⁸ Units required to take this

action would obviously be impaired in their ability to respond to national security requirements. Neither the Services nor Congress wanted this. So, reprogramming was used to fill the funding gaps created by the shifting of appropriated funds from future quarters.

b. Reprogramming of Funds

To replenish those operating accounts, the DoD normally submits an annual request to move funds from one account to another of previously appropriated funds. Basically, this is a request for relief from some of the spending guidelines imposed by Congress so that "higher priority" needs can be funded. This request takes the form of an Omnibus Reprogramming Request.

The 1996 Omnibus Reprogramming Request made specific requests to reallocate appropriated funds to offset "unanticipated" increased costs of Bosnian operations.⁹ Upon closer review of this 1996 Omnibus Reprogramming Request, several observations might be drawn:

1. The purpose of the reprogramming request is not to provide funding for the achievement of pre-contingency funding priorities, but to set the defense financial house in order, and avoid 1517 violations, before the end of the fiscal year.¹⁰ The Omnibus Reprogramming Request is made in late July. This is the standard time frame for such requests. This means that even if approved by Congress in early August, the drained training, maintenance and operations accounts will have precious little time before appropriations expire to make up for lost opportunities.
2. Congress has made much ado about the DoD obligating large chunks of appropriated funds in the months prior to expiration, yet approval of the reprogramming request in August or September virtually assures either that this will happen or that reprogrammed money will expire unused.
3. The general format of the individual reprogramming requests is to replenish already expended annual appropriations (O&M, MILPERS) by shifting funds from multiyear accounts (Procurement, Construction). The

effect on these multiyear accounts is to stretch out acquisition timetables, reduce order quantities in a given year and increase cost per unit.¹¹

4. Some of the reprogramming requests seem to be an effort to cover the cost of carrying out actions which were mandated by Congress. These additional mandates often came without additional funding to make them happen. At first this did not seem to apply directly to contingency operations, but funds initially budgeted for an operational unit which is "taxed"¹² to pay for congressionally required initiatives, certainly puts an additional constraint on that unit's ability to perform assigned missions.

5. The reprogramming request sweeps across all Services. Even those Services not significantly involved in Bosnian Operations were asked to help cover the cost of operations. This means that the Services who are better able to track and document all costs associated with a contingency operation are more likely to be reimbursed by the reprogramming. On the other hand, those Services unable to justify costs are likely to be asked to have their multiyear programs stretched out to pay for sister Services' incremental contingency operation costs.

c. Supplemental Funding Request

The GAO released a study in March 1996 that reviewed the DoD FY 1995 request for supplemental funds in support of Bosnian Operations. This report also made recommendations on how Congress should handle DoD supplemental funding requests not only for Bosnia but also for contingency operations in general. The results of this report reveal some interesting points which, if a Service takes action on, could significantly enhance ability to secure reimbursement for the costs of future contingency operations.

The GAO study looked at how the Services used the 1995 (previous year) supplemental funding provided by Congress. Some of the Services ended fiscal year 1995 with contingency costs in excess of their share of supplemental funding. These Services had to absorb those additional costs by reducing other planned activities (e.g., reductions in planned maintenance, training, steaming or flying). Other Services ended the fiscal year with contingency costs less than the amount of supplemental funding they received. These services used these "excess funds" to pay for previously unfunded requirements.

The GAO knows that Congress does not look kindly on the Services using funds for purposes other than appropriated. While the Services with costs less than supplemental funding may have believed they were obligating those "excess funds" for necessary national defense needs, the GAO sees this practice as not matching funds to their designated purpose. Because of this, the GAO now recommends that supplemental funding to cover the cost of contingency operations should only be used for documented expenses incurred in support of those operations. Also, if it is later found that a Service receives funds in excess of actual documented costs, then the "excess" contingency funds should be redistributed to other Services funding shortfalls before any additional supplemental funds are appropriated by Congress (GAO/NSIAD-96-120BR Bosnia, p. 3).

The GAO study also conducted an analysis of the accuracy of DoD cost estimates. Close inspection revealed that these estimates seem to be little more than a SWAG. The chart below shows some of the estimates associated with Bosnian Operations and the percent that actual costs exceeded these estimates.

**DoD Cost Estimate Inaccuracies for Bosnian Operations
(Dollars in Millions)**

Costs Associated With	DoD's Estimate	Actual Costs as a % of Estimate
Deployment	\$ 73	215 %
Contractor Support	\$ 192	> 125%*

* U.S. Army Europe officials believe contractor costs could go as high as \$500 million!

Source: GAO/NSIAD-96-120BR Bosnia

In summary, the GAO findings on DoD Supplemental Appropriation requests reveal the following:

- > Inaccurate DoD and Service cost estimates.
- > Supplemental funds appropriated by Congress have not always gone to replenish the Service accounts that were depleted by a contingency operation.
- > A strong concern by the GAO and Congress that any future supplemental funding requests need to be based on accurate costs, and that supplemental funds if appropriated need to get to the right accounts.

The tone of the GAO report seems to say: *the DoD doesn't have its accounting "act" together*. Considering this, the Services can only do themselves a favor by concentrating efforts on establishment of accounting systems that are capable of identifying and documenting all costs (direct, indirect and administrative) associated with contingency operations. This would derive two significant benefits. The first benefit is that Congress would be able to develop greater trust and confidence in defense reporting. This would make supplemental requests much more likely to be approved. The second benefit of an accurate and timely reporting system would be that supplemental requests could be made much sooner. More timely supplemental requests and a greater likelihood of approvals would mean less disruption of operations, maintenance and training that must now be delayed or cancelled.

Final Note on Bosnia: In the proposed budget for FY 1998, the President proposed spending \$2 billion to keep U.S. troops in Bosnia.: Where would these funds come from? Administration officials told Congress that funds to pay for Bosnian peacekeeping would be sought *from sources within the DoD* (AP, 6 February 1997).

This means that even ongoing contingency operations are expected to be financed within a steadily shrinking budget. In summary:

**Under Current Financing Methods
The Services Have Only Three Choices:**

- (1) To learn to operate within available budget levels more efficiently.
- (2) To perform contingency operations at the expense of current or future readiness and capabilities.
- (3) To accurately report the impact (both in dollars and in future readiness) of conducting contingency operations so that DoD, Administration and Congressional decision makers can make budgeting and force use decisions based on the nation's long term best interests.

The first option basically means to continue doing what has been done in the past but, a little better. In light of the strategic trends already discussed in Chapter II, doing "it" 5% better than last year is not a formula for success. Declining defense budgets, the changing concept of force use, and the dramatic increase in unanticipated and unbudgeted missions are translating into a reduction in either current or future military readiness and capabilities. The next section discusses the consequences of drawing from readiness as a method to finance contingency operations.

**C. FINANCING CONTINGENCY OPERATIONS WITH
READINESS**

This section taps into two research methodologies to analyze the direction of military readiness. The first method is an archival study of post Cold War readiness trends. The second method, involving informal interviews, was intended to serve as confirmation of these trends. The results are surprising. This section discusses:

- > Reported SORTS for the period of 1990-1995
- > Problems associated with using SORTS as a readiness indicator
- > Resource allocation decisions and the use of SORTS
- > Lurking longer term problems
- > Improving the accuracy of current readiness reporting systems

1. Reported SORTS for the Period of 1990-1995. (GAO/NSIAD-96-111br, pp. 9-16)

The primary method for military units to report the status of their combat readiness is through the DoD Status of Resources and Training System (SORTS).¹³ If operational units are accurately reporting this information up the chain of command, then at least the short term problems associated with declining budgets and increasing contingency commitments **should** be exposed in this readiness tracking system. Readiness trends associated with contingency operations are discussed for each of the Services below.

a. *Changes in Reported Navy Readiness Due to Contingency Operations*

Three of eight aviation squadrons in the study reported significant reductions in readiness levels. Navy officials said these reductions were due to two factors. (1) Contingency Operations caused a shortage of flying hour funding which significantly reduced training readiness. (2) Personnel shortages caused by force structure changes.

b. *Changes in Reported Army Readiness Due to Contingency Operations*

Officials said that contingency operations generally affected readiness in two ways. (1) As portions of units are deployed in response to a contingency operation, the most mission capable aspects of those units (including equipment and supplies) are normally sent along to carry out the operation. This leaves the remainder of the unit at a lower overall readiness status. And (2), if a unit is engaged in a contingency operation, it is unable to train in its full range of warfighting skills, or to maintain equipment in a mission ready condition. This is the concept of opportunity costs discussed earlier.

c. *Changes in Reported USMC Readiness Due to Contingency Operations*

The percentage of units reporting C-1 or C-2 declined. Officials said that readiness for many units was not at desired levels. Readiness reductions were due to increased optempo demands (contingency operations) that required more detachments of mission ready personnel to Marine Expeditionary Units, thus degrading the readiness status of parent units. Shortages of personnel (budget and force structure reductions) were also blamed for some units' decline in readiness.

d. *Changes in Reported Air Force Readiness Due to Contingency Operations*

Continuous commitments affected readiness of airlift and specialty units. Continuous use of aircraft to support contingency operations such as Desert Storm, Somalia and Bosnia operations, along with counterdrug ops resulted in a "strain on the supply of parts and engines and accelerated the rate at which aircraft required major repairs" (GAO/NSIAD-96-111br, pp. 14). Also reporting degrading readiness were specialty units such as Airborne Warning and Control System (AWACS) Squadrons. These units are important to air space dominance operations and are normally one of the first to deploy in a contingency operation.

2. *Problems Associated With Accurate SORTS Reporting*

Although the above research did show declines in readiness due to contingency operations, further research reveals that military readiness levels may not even be as high as reported.

a. GAO Studies on Military Readiness Reporting

GAO studies assessing reported SORTS for this period reveal widespread and unsubstantiated upgrade, "for extended periods of time," of units' overall readiness status. The General Accounting Office questioned this practice and the Services generally, "could not determine in retrospect whether the upgrades were justified." The SORTS system is made up of a subset of reporting categories involving manning levels, equipment and supplies on hand, and training levels achieved. These subsets are based on objective information such as number of crews formed, number of planes able to carry out missions, and crew qualifications earned. According to the SORTS manual, the overall readiness level reported should be the lowest C-Rating achieved by these subsets. But, (and herein lies the problem) a unit commander has the authority to subjectively upgrade his unit's overall reported readiness status (GAO/NSIAD-96-111br, p. 3). Unfortunately, if these same unit commanders feel that SORTS serves as a report card on their performance, they also have an incentive to upgrade reported SORTS. SORTS reporting and incentives are discussed in greater detail below.

b. Other Evidence Questioning the Accuracy of SORTS

A GAO report, titled Military Readiness: Improvements Still Needed in Assessing Military Readiness, is the first source that implies that current reporting systems may not accurately portray reality. The findings of this report are summarized with the following quote:

Formal readiness reports provided by SORTS have sometimes indicated a higher state of readiness than appears warranted based on other information coming from military personnel in the field. The implications are that the formal reporting system is overly optimistic in its readiness assessments, and questions can be legitimately raised about its credibility.

Source: GAO/NSIAD-97-107, Military Readiness, Improvements Still Needed in Assessing Military Readiness

Another source questioning the accuracy of SORTS reporting is a study conducted by Representative Floyd Spence's staff. In 1996, Representative Spence and his staff conducted visits to over 50 military units. Based on these visits Representative Spence states:

The reality is that years of declining defense budgets, a smaller force structure, fewer personnel and aging equipment, coupled with an increase in the number of peacekeeping and humanitarian operations, are stretching U.S. military forces to the breaking point.

Source: U.S. on the Verge of a Readiness Breakdown? Navy Times, April, 1997.

c. Interviews On the Accuracy of Reported SORTS

To find out more about this subjective upgrade of reported SORTS, informal and anonymous interviews were conducted to discuss actual vs reported readiness levels, and the incentives that might influence inaccurate SORTS reporting.¹⁴ Representatives from three different Services were interviewed. These individuals were chosen for two reasons: (1) Their duties placed them directly involved with the SORTS program of units they discussed. (2) Their experience was with front line units most likely to be called upon during quick notice contingency operations. The results are provided below.

Results of Informal Interviews Concerning Accuracy of SORTS Reporting

Interviews revealed that many of those who prepare SORTS reports, those who work for reporting unit commanders, and unit commanders view SORTS as a "report card" on performance. Because of this, there are strong incentives for those submitting reporter to present their unit in the best light possible. As seen below, this incentive for positive reporting (SORTS to please) was the overriding point expressed.

- > A Staff Training Officer stated that if a unit training officer reported C-3 just prior to deployment, then not only would the unit commander lose his job, but the Wing Commander's job would also be put in jeopardy.
- > A Squadron Readiness Officer knew that due to force structure drawdowns, one of the five squadrons in his wing would be decommissioned within the next six months. He also knew that the squadron with the lowest, "mission capabilities as reported by SORTS" would gain unwanted attention by those deciding which squadron would go.
- > An aircraft carrier division officer stated that the commanding officer wanted accurate SORTS data reported, but also stated that the carrier's operations officer would upgrade the reported C-Status based on "subjective" factors.
- > An Army Company CO stated reporting Company C-Status based on objective measures. The submitted report would be reviewed by the chain of command and released at a higher reported C-Status levels based on "nonquantifiable" factors.

While the results of these informal interviews cannot be projected with confidence to represent the attitudes and positions of entire Services, the survey does support other evidence to the effect that incentives are at work that might induce many unit commanders to report their units at levels not justified by training, equipment, personnel or capabilities. This is especially troubling since CINC, DoD and Congressional decision makers depend on accurate SORTS data to make planning and resource allocation decisions.

3. Resource Allocation Decisions and the Use of SORTS

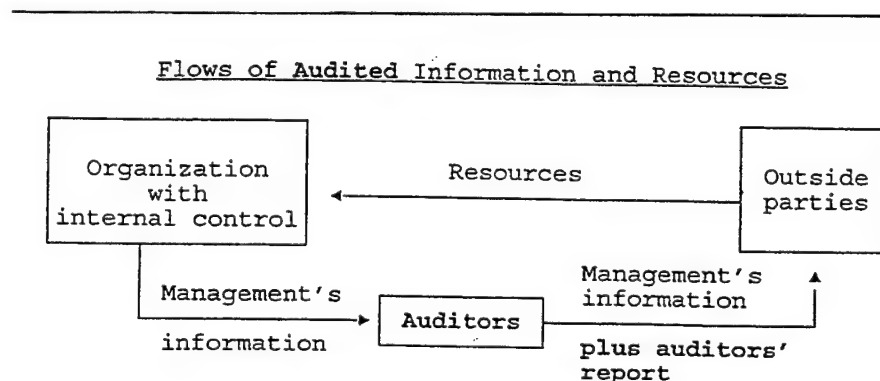
Readiness is the key indicator used by the Services and the Unified Commands to determine if resources are available to effectively respond to crisis situations, i.e., contingency operations (GAO/NSIAD-96-111br, p. 1). The DoD has stated that maintaining a high degree of readiness is its first priority, (GAO/NSIAD-96-111br, p. 16) and various systems are in place to identify and correct readiness concerns.¹⁵ But, a

review of these systems shows that the key standard used to indicate a readiness problem is the reported overall SORTS ratings.¹⁶ This means that unless incentives change, there is a likelihood that the DoD will continue to use overstated readiness information for resource allocation decisions.

a. The Solution is Education and Independent Auditing

Education: An understanding of the purpose of SORTS, up and down the chain of command is essential. From the division officer preparing inputs for executive officer (XO) review, to the Unified Commander's off the record remarks; each has an opportunity to influence the accuracy of the reporting system in ways that will either (a) support the purpose of the SORTS system or (b) perpetuate unsubstantiated upgrades of unit readiness. The DoD already offers classes on SORTS preparation. A half day course could be provided to prospective commanding/executive officers that emphasizes the importance of accurate reporting and the fact that SORTS is not a "report card" on their leadership abilities.

Independent Auditing: Although it would be convenient to think education by itself would be the answer, it is probably necessary to use a system of independent auditing similar to that used by companies to report financial statements to shareholders. Figure 3.5 shows how this cycle might work.



Source: Internal Control & Auditing, Fremgen, 1996.

Figure 3.5 A Model for Improving the Accuracy of Reported Readiness

The proposed system in Figure 3.5 shows that Unit Commanders submit readiness and capabilities information to auditors. Independent auditors take reported information and forward it with their appraisal of the information's scope and fairness to outside parties. Outside parties could be the CINCs, the Office of the Secretary of Defense, Congress, or others involved with resource allocation decisions. Then, based on a higher confidence in reported information, resources could be allocated according to highest priority national defense requirements.

An independent audit process is likely to provide two benefits.¹⁷

- > A reduction in incentives for reporting commanders to indiscriminately increase reported readiness status.
- > An increased confidence by resource allocators in the reliability of reported SORTS.

b. Near Term Readiness Reporting Problems

As long as incentives remain for unsupportable and error prone upgrades by unit commanders, any or all of the following are likely:

- > The use of inflated SORTS data could serve as evidence that past budget cuts have caused no real damage to the nation's military capabilities or readiness. This could open the door for continued cutbacks.
- > DoD efforts to correct readiness problems could suffer due to reliance on inaccurate information.
- > Units who report higher than actual readiness status could jeopardize lives, missions and national interests.

4. Longer Term Problems ?

As already shown, there is evidence that one source of financing contingency operations is with current readiness. But, are we also borrowing from future military capabilities to cover today's shortfalls? During the 1970s, military budgets emphasized equipment purchases. The thought was, if a threat emerged, then force structure, training and maintenance could be geared up and matched to already existing equipment. This "hollow force" policy caused morale and readiness to suffer, and is not something today's leaders (who were the junior officers of the 1970s) want to repeat.

In a telephone interview with the DoD Deputy Comptroller (O&M Accounts), the process of dealing with reported unit readiness problems was discussed. The DoD takes each case seriously and seeks to shift funds as necessary to "fix" reported problems. Reprogramming requests are sent to Congress to "borrow" money from longer term capital accounts in order to cover today's shortfalls. Meanwhile as already discussed equipment is aging in two ways:

- > Equipment procurement has been chopped by 10% in the last three years. Acquisition programs are being stretched further into the future. This practice ends up costing money due to losses of economy of scale and the inefficiencies of program stops and starts (WSJ, April 1, 1996).
- > Operations like Bosnia, Rwanda, and seemingly annual surges to deter aggressive moves by Iraq are causing already aging equipment to approach end of design life even faster than anticipated.

As this aging equipment is not replaced, we might be setting ourselves up for future problems that cannot be solved as easily as using today's technique of shifting funds around. So, if the "hollow force" approach of the 1970s proved incorrect, and the "maintain current readiness" approach of the 1990s has forced decision makers to borrow from future capabilities, then what is an appropriate approach to defense resource allocation. Chapter IV discusses a mission financing approach to resource allocation.

This approach is capable of increasing adaptiveness to the changing strategic environment and providing a better match between military capabilities and national security requirements.

D. SUMMARY

1. A Review of the Contingency Operation Funding Cycle

When U.S. Armed Forces are directed to conduct a contingency operation, the decision has already been made, whether explicitly or not, to forego the use of those forces somewhere else. If the operation involves primarily disaster relief or nation building, then the forces are committed to a mission that is outside their primary purpose.¹⁸ Not only are the forces involved in contingency operations unable to maintain combat proficiency, but as funds are shifted to pay for the operation, nondeployed units, who should be working up to deployment proficiency levels often find training accounts drained and are thus also unable to carry out planned exercises intended to sharpen warfighting skills. The result is a decline in either current or future military capabilities or readiness. Below is a summary of how contingency operations are financed.

The Contingency Operation Financing Cycle

- (1) The PPBS System allocates resources based on planned needs of the Services to meet national security requirements.
- (2) An unplanned and unbudgeted mission is assigned.
- (3) The Services provide assets to accomplish the mission.
- (4) The costs of the mission are initially paid with O&M funds from current quarter apportionments. When those funds are exhausted, O&M funds are "borrowed" against future quarters.

(5) When O&M funds for the fiscal year are exhausted, funds are reprogrammed from "lower priority" accounts. These reprograms include maintenance and capital accounts, and transfers from sister Services not even involved in the contingency.

(6) These actions cause Procurement and Construction activities to be delayed, stretched and cancelled.

(7) As a contingency operation causes equipment (airplanes, ships, trucks, etc.) to be used at a faster rate than originally anticipated, maintenance requirements are accelerated and next generation replacements are needed sooner.

(8) As life cycle estimates are shortened for capital equipment, funds are also being funnelled away from the very multi-year appropriations that are intended to fill these rapidly approaching future needs.

(9) Long-term readiness and military capabilities suffer.

2. Other Conclusions On Contingency Operations Financing

The Services do not have a firm grasp on the costs associated with contingency operations. Direct costs such as fuel, Meals Ready to Eat (MREs) and special duty pay are readily observable and much more likely to be accounted for. On the other hand, indirect costs such as accelerated depreciation and the costs associated with increased levels and periodicity of maintenance are less likely to be captured.

There will certainly be times when it is in the nation's vital interests to commit U.S. forces to contingency operations not involving their primary role. But, when this does happen, it is important to have an understanding of all the costs involved. An analysis of these costs should include the opportunity costs of lost training, readiness and warfighting potential.

Moving funds from inventory and capital goods accounts (e.g., OP, SCN, APN, RDT&E) into expense accounts (e.g., MPERS and O&M) to pay for contingency operations is just plain bad business. This practice could be compared to an individual having funds allocated to a house or car payment, and using that money to pay for

groceries and the electric bill. Neither the DoD nor that individual reveal sound fiscal management, and both are jeopardizing the future just to get through another "pay" cycle.

Even with supplemental appropriations, some indirect and undocumented costs of contingency operations are absorbed by the Services. This adds to the mismatch between military capabilities, readiness, (either current or future) and ultimately the ability of the Services to meet national security requirements. Executive Branch policy makers and legislative branch funders want and deserve DoD feedback systems that accurately portray the costs in taxpayer dollars and military readiness of a potential or ongoing contingency operation. Current systems are not doing this satisfactorily.

Throughout this chapter, suggestions have been made on how to improve existing methods of recognizing and accounting for the costs associated with contingency operations. But, continuing to do business as in the past, but a little better, is not the solution. What is needed is a strategic shift in resource allocation methods capable of adapting to a new and dynamic global environment. Chapter IV offers an alternative for accomplishing this objective.

ENDNOTES

¹ Since the initial impact of contingency operations is on Operations and Maintenance (O&M) accounts, the emphasis of this explanation is on how these requests for O&M funding go through the PPBS System.

² Not surprising since a 1517 violation requires a report of violation that includes assignment of responsibility. The result of a violation could include administrative or disciplinary action including: reduction in grade, suspension without pay, removal from office, fines up to \$5,000 and imprisonment for up to 2 years.

³ LCDR Larry Thompson, USN, Fiscal Officer, Marine Corps Air Station, Futenma, Japan, interviewed by LCDR Joseph M. Flynn, at U.S. Army Command and General Staff College, February 16, 1994.

⁴ When operation Restore Hope began in December, 1992, (2 years after Desert Storm) only 2 of 13 MPF shiploads had undergone required repairs and would not do so until 1994. As a result much of the equipment used by Marines in Restore Hope had not yet received required maintenance.

⁵ For a closer look at the negative long-term effects of reprograms and transfers see Appendix B.

⁶ The JTF was capable of providing resources where needed while maintaining the ability to withdraw out of sight to a self sufficient bases located offshore.

⁷ Assistant Secretary of the Army memo, August 26, 1991.

⁸ Note: This was a full six months before the next fiscal year appropriations would be available.

⁹ In a cover letter of the Omnibus Reprogramming Action from the Subcommittee on National Security (House of Representatives), the Chairman states "I agree that additional Bosnia costs necessitate reapplication of the O&M funds to the increased Bosnia costs." Note: Recall that the Services were forced to submit this request for reprogramming because the additional costs of Bosnia Operations were not forthcoming and it was necessary to request relief from spending fences and floors from Congress, not because the Services felt that the funds could be spared from "lower priority" items.

¹⁰ Discussions with two different Navy Comptrollers on this point revealed that this was not a startling conclusion. The focus of these reprograms was to meet the needs of today in hopes that the funding shortfall in the longer term accounts could somehow be made up in future year budgets.

¹¹ See Appendix D for an example of how cutbacks and stretches add greatly to program costs.

¹² If the DoD or a Service is required to take the cost of some Congressionally mandated item "out of hide," budget holders are often asked to take horizontal cuts to make up these additional costs. This takes the appearance of a tax on an operational unit's budget and undoubtedly restricts their capabilities.

¹³ Overall Readiness status of a unit is reported by assigning "C" levels that are defined as follows: C-1: Unit can undertake the full wartime mission for which it is organized and designed. C-2: Unit can undertake the bulk of its wartime mission. C-3: Unit can undertake major portions of its wartime mission. C-4: Unit requires additional resources and/or training to undertake its wartime mission, but if the situation dictates, it may be required to undertake portions of the mission with resources on hand. C-5: Unit is undergoing a service directed change and is not prepared to undertake its wartime mission. (Navy SORTS Manual)

¹⁴ The individuals selected for these informal interviews do represent experience from various types of units within the Services, but these volunteers were not selected based on a statistical sample, and the experiences and opinions expressed should not be projected to an entire Service.

¹⁵ January 23, 1997 Phone interview: The DoD Deputy Comptroller states: "One of the Departments highest priorities is identifying and correcting readiness shortfalls."

¹⁶ Including the Senior Readiness Oversight Council, chaired by the Deputy Secretary of Defense and the Joint Monthly Readiness Review, chaired by the Vice Chairman of the Joint Chiefs of Staff.

¹⁷ It is essential that the auditors not only actually be independent of the audited organization and its chain of command, but that they also appear to be independent in the eyes of outside parties.

¹⁸ To fight and win the nation's wars.

IV. MISSION FINANCING

This thesis has described the circumstances of the Department of Defense as characterized by a dramatically changed strategic environment, declining defense budgets and rising contingency requirements. Given these trends, it is clear that the DoD must adopt a system of resource allocation able to meet the needs of this new environment. An alternative system should provide incentives for efficient use of resources to meet the needs of defense readiness, sustainability, force structure and modernization. The desired system should also encourage a closer match between defense policy responsibilities and budgetary authority. One system that meets these needs is mission financing. This chapter introduces the mission financing concept, provides an examples of how it would work, and outlines the advantages of using such a system. This will be presented as follows:

A. The Role of Combatant Commanders in Contingency Operations

Including:

- > The Chain of Command of a Typical Contingency Operation
- > The Responsibilities of Principle Players in a Contingency Operation
- > The Mismatch between CINC Responsibilities and Authority

B. Mission Financing, Matching Budgeting Authority to Responsibilities

Including:

- > Establishing a Working Definition of Contingency Operations
- > The Proposed Flow of Funds for Mission Financing
- > What is Required for Mission Financing to Work
- > Advantages of a Mission Financing Approach

A. THE CINCs' ROLE IN CONTINGENCY OPERATIONS

A desirable system of resource allocation should encourage a close match between defense policy responsibilities and budgetary authority. This section describes the interrelationships between the Geographic CINCs and the Military Services in the accomplishment of contingency responsibilities. The chain of command of a typical contingency operation is presented, and the operational and fiscal responsibilities of principle players are discussed. Concluding this section is a discussion of the mismatches between responsibilities and budgeting authority inherent in the current system.

1. The Chain of Command of a Typical Contingency Operation

Figure 4.1 shows the major players involved in a typical contingency operation.

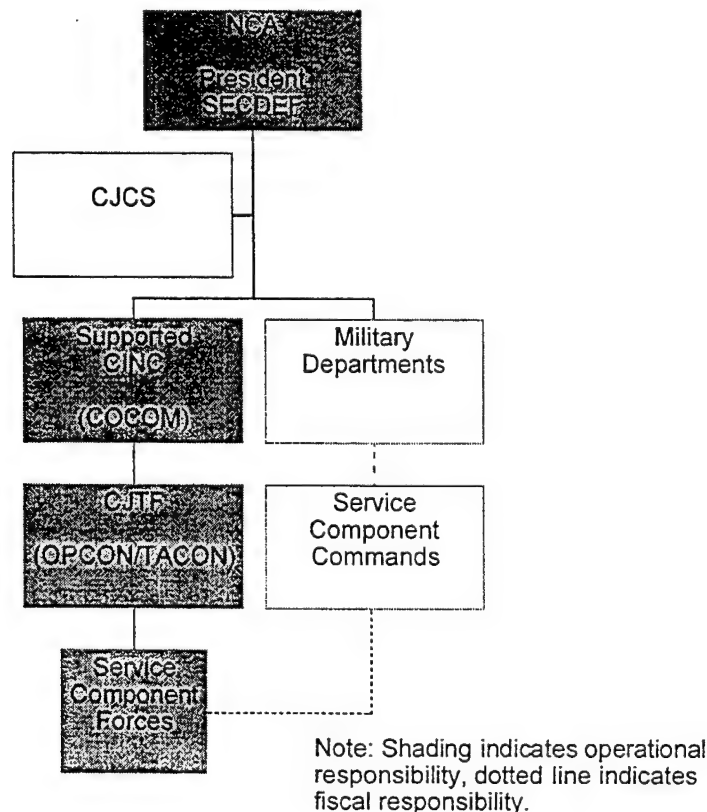
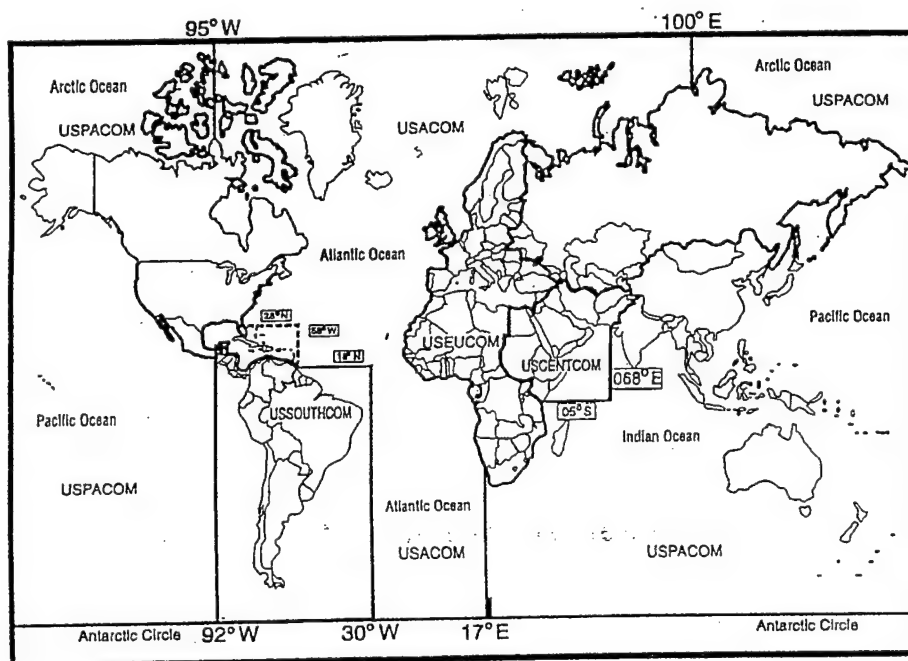


Figure 4.1 CINCs Have Responsibility for Accomplishment of Contingency Operations

The chain of command relationships show that the Combatant Commander, or CINC, is operationally responsible for an assigned contingency operation. The CINC accomplishes assigned contingencies by using forces and assets provided by the service component commands and supporting agencies.

2. Mismatch Between Responsibilities and Budgeting Authority

As Figure 4.1 indicates, there is a mismatch between contingency operation responsibilities and budgeting authority. The Services have budget authority to recruit, train, equip and supply combat and support units (along functional lines) to the CINCs. However, it is the CINCs who are responsible for mission accomplishment in specific geographic regions. Figure 4.2 below shows CINC areas of responsibility.



Source: NPS, Basic Documents in National Security Volume I

Figure 4.2 CINCs Have Geographic Responsibilities But Little Budget Authority

The CINCs are obligated to know the specific resource requirements and tailored force needs of their area of responsibility (AOR). CINC responsibilities include knowledge of a potential enemy's terrain, weather conditions, the types of forces required for possible contingencies, and the types of logistical support needed for mission accomplishment. Also part of CINC responsibilities are the development of operation plans, called Concept Summaries, for both major regional contingencies (MRCs) and lesser regional contingencies (LRCs) anticipated to meet national security threats by geographic region. What is needed is to match fiscal authority to the organizations assigned to accomplish these responsibilities.

B. MATCHING BUDGET AUTHORITY TO MISSION RESPONSIBILITY

This section establishes a working definition for contingency operations and describes the proposed alternative flow of budgeted funds to finance these events. Also discussed are the components of mission financing and the advantages of using such an approach.

1. Establishing a Working Definition for Contingency Operations

One of the problems associated with effectively financing contingency operations is in defining what constitutes such operations. Certainly Desert Storm would qualify, but what about the operations leading up to Desert Storm (ie., Desert Shield). Would extending the time on station of a battle group in response to Saddam's latest aggressive moves qualify as a contingency operation?

Neither an archival search nor interviews with DoD officials produced answers as to how the Pentagon actually defines contingency operations for the purposes of funds

tracking. One method uses Joint Project Codes (JPCs) to identify operations that meet certain criteria such as a high degree of visibility or costs that are expected to be reimbursed by supplemental funding from Congress. However, other operations involving significant incremental costs can go untracked.¹

It is proposed that all CINC-directed operations involving incremental costs to the Services should be treated as contingency operations for funding purposes. A general classification of these events is shown below.

Joint Exercises	Heightened Readiness	Force Surge	Forward Presence	OOTW	LRC/ MRC	Conflict Termination Operations
-----------------	----------------------	-------------	------------------	------	-------------	---------------------------------

Figure 4.3 Examples of Events Representing Incremental Costs to the Services

More specific examples of events that represent additional costs to the Services are flexible deterrent options (FDOs). Military FDOs may be used in concert with diplomatic, economic and political actions to respond to a developing crisis (AFSC PUB 1, pp. 6-8). Figure 4.4 is a summary of FDOs that should be tracked for financing purposes.

EXAMPLES OF *MILITARY FLEXIBLE* DETERRENT OPTIONS

- | | |
|--|--|
| <ul style="list-style-type: none"> • Employ readily in-place assets • Upgrade alert status • Increase strategic reconnaissance • Increase collection efforts • Initiate or increase show of force actions • Employ electronic measures • Conduct aircraft flyovers • Increase exercise activities, schedules, and scope • Increase military exchanges and staff visits to the area • Increase naval port calls or air squadron visits to the area • Increase Mobile Training Teams • Impose restrictions on military personnel, retirements, separations, and leaves; establish curfews • Institute provisions of existing host-nation agreements • Open pre-positioned stockage facilities • Use naval or air capability to enforce sanctions • Deploy tactical fighter squadrons • Order contingency forces to initiate actions to deploy • Deploy AWACS to region • Move MPS to region | <ul style="list-style-type: none"> • Deploy Surface Action Group to the region • Deploy CVBG to region • Begin moving forces to air and sea ports of embarkation • Move Marine Expeditionary Brigade to region • Deploy the forward-deployed ARG/MEU to the region • Activate procedures to begin reserve callup • Prestage or deploy contingency ready brigades • Increase the use of SOF facilities <ul style="list-style-type: none"> - specially designed teams • Prestage airlift • Prestage airlift support assets • Prestage sealift and airlift reception assets to air and sea ports of embarkation • Emplace logistics infrastructure where possible • Open and secure sea and air lines of communication • Increase informational efforts <ul style="list-style-type: none"> - PSYOP - measures directed at the military forces of the opponent - mission awareness |
|--|--|

Source: AFSC PUB 1, Figure 6-8.

Figure 4.4 Flexible Deterrent Options Are Specific Examples of CINC Directed Events Involving Incremental Costs to the Services

It is proposed that if a CINC-directed operation is in the general or specific categories of Figure 4.3 or 4.4, then the event should be identified as a contingency operation for financing purposes. By defining and identifying a contingency operation as exactly what it is,² we can begin to build information and financial systems that more accurately track actual response costs. As discussed, currently the Services routinely absorb the costs of these operations until continuing to do so becomes either too costly or significantly disrupts short-term capabilities. It would make more sense to track costs as they occur and have them paid by the customer (the CINC). The Services would remain responsible for funding their units' operating and maintenance requirements to meet basic

and standardized levels of proficiency, and the requesting customers would finance all incremental costs associated with directed operations.

This proposed arrangement is one that matches CINC responsibilities with budgetary authority. The result is a system that provides incentives to the Services to become more responsive and effective in meeting both CINC and national security needs. The next subsection discusses one option to show how this system would work.

2. The Proposed Flow of Funds for Mission Financing

Figure 4.5 represents the proposed flow of funds to operational units in support of CINC directed operations.

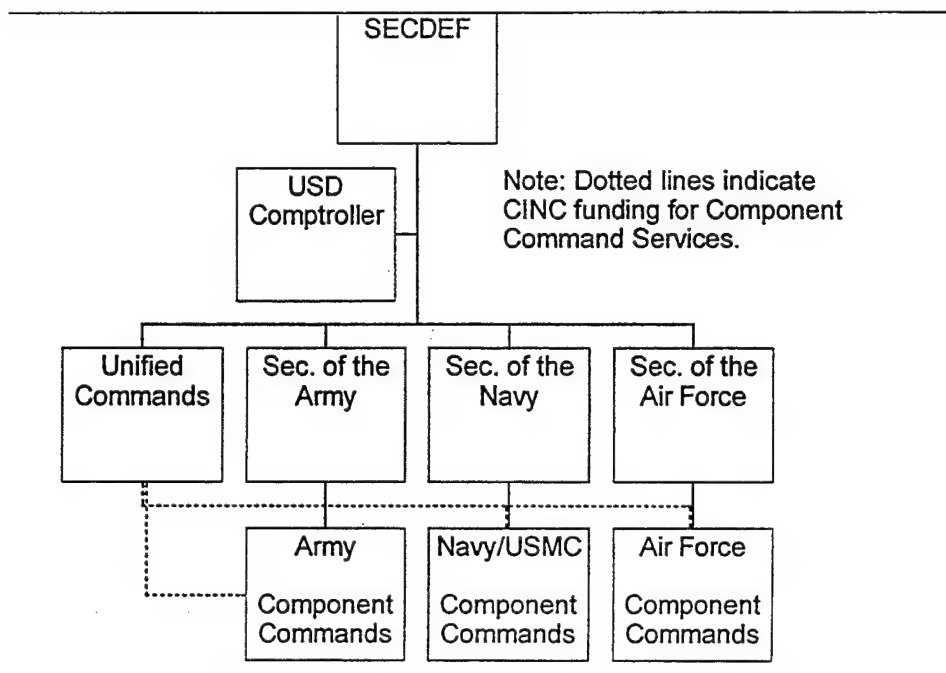
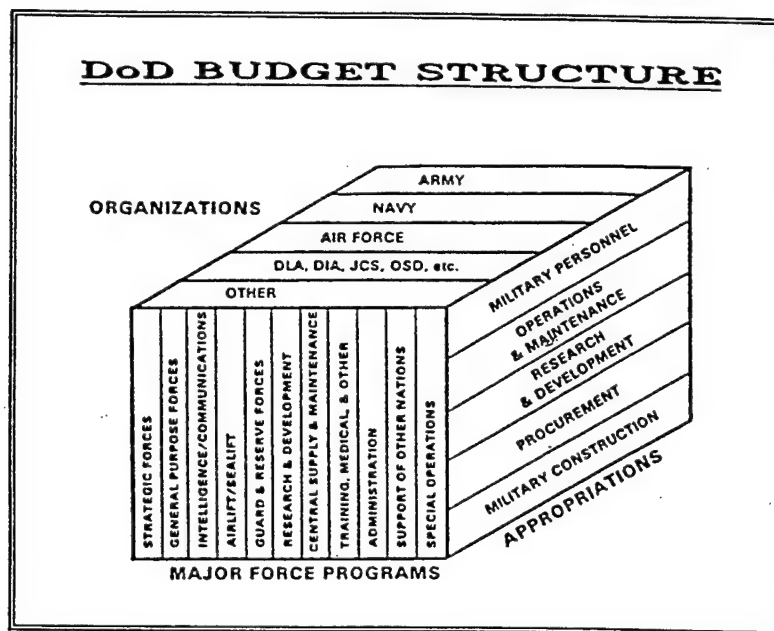


Figure 4.5 The Flow of Funds for Mission Financing

Figure 4.5 shows that units would receive budgeted funds from two sources. To meet and maintain basic readiness standards, funding would flow through the Services. In addition, funds for operations in support of CINC requirements would flow from the Unified Commands. Where would CINC-provided funds come from?

Figure 4.6 shows the current "Rubic's Cube" of the DoD Budget. Depicted are Major Force Programs (MFPs), appropriation categories, and defense organizations that currently have budgetary authority.

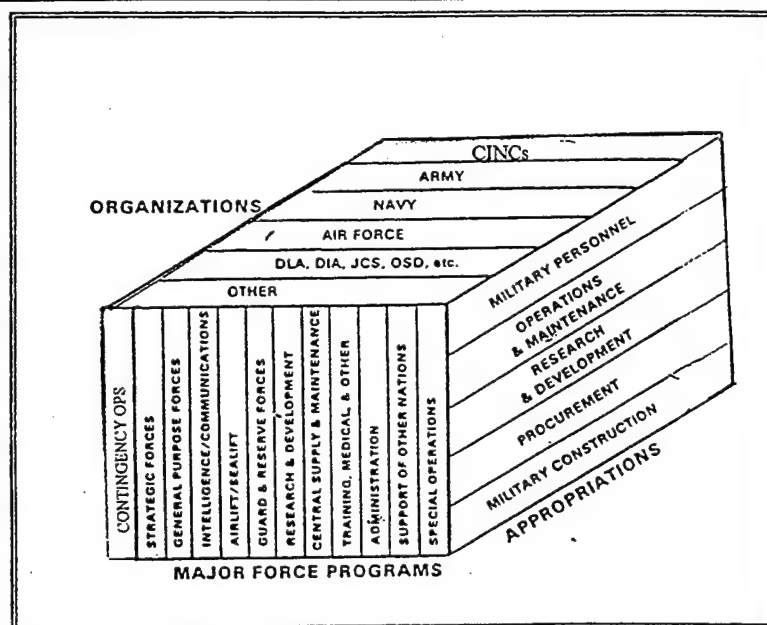


Note: CINCs Not Included as an Organization With Budgetary Authority

Source: AFSC Pub 1, 1991, pp. 5.

Figure 4.6 Current DoD Fiscal "Rubic's Cube"

Providing budgetary authority to match CINC responsibilities could be done by adding an additional MFP for CONTINGENCY OPERATIONS, and including the CINCs as defense organizations. Figure 4.7 shows the alternative matrix.



Note: CINC's Have Budgetary Authority to Match Geographic Responsibilities

Figure 4.7 Revised DoD Fiscal "Rubic's Cube"

Money appropriated to the MFP "Contingency Operations" would include two categories of funds. The first category would include anticipated incremental costs from ACOM and other CINC-related joint training exercises.³ Also included in the first category would be funds for resources and forces allocated by the National Command Authorities (NCA) for execution of contingency plans (User's Guide for Joint Operation Planning, 1994, pp 4). The second category of funds would be: Investments for Future Needs. This category would include CINC-directed RDT&E, Procurement and Construction to meet the unique equipment or capability needs of specific geographic regions (Jones and Bixler, 1992, Chap. 9; Thompson and Jones, 1994, Chap. 8).

3. What is Required for Mission Financing to Work

Three essential components are required for this alternative system to work:

- (1) A Customer (The CINC)**
- (2) A Supplier (The Services), and**
- (3) An Accounting System** capable of accurately tracking and projecting costs.

The section below provides one example of how these components would work together.

Mission Financing in Practice

> A CINC identifies a need for certain mission capabilities in support of national security requirements. This is part of a CINC's normal responsibilities (called the joint operation planning process) and involves the development of plans for potential crises involving military resources that can reasonably be expected in a Combatant Commander's area of responsibility (User's Guide for Joint Operation Planning, 1994, pp 4).

> Service Units, in the form of Adaptive Force Packages (AFPs),⁴ identify potential costs, both direct and indirect, associated with providing the identified mission capability.

> AFPs present mission capabilities and anticipated costs of providing those services to the CINC staff. This would be done in much the same way a free market manufacturer's representative markets goods and services to buyers.⁵

> The CINC evaluates offered services against similar services offered by other AFPs. i.e., evaluates the costs and benefits of deploying a Carrier Battle Group to meet forward presence requirements vs deploying a MEU combined with land based aircraft, or other alternatives.

> The CINC offers to provide funding in return for a specific set of mission capabilities.

> The Adaptive Force Package develops an Interservice Agreement (ISA). The ISA represents a preliminary agreement between the CINC and the Service Units, outlines the services to be provided, and sets up the anticipated cost and control structure to perform the assigned mission. i.e., Cost/Flight Hour or Cost/Steaming Day.

> The CINC reviews the ISA, works out modifications as desired, and comes to agreement with the service providers on mission capabilities and costs.

> The CINC tests capabilities and costs in planned exercises or in actual operations where these mission capabilities are required.

The proposed mission accounting cycle of funds is shown below.⁶

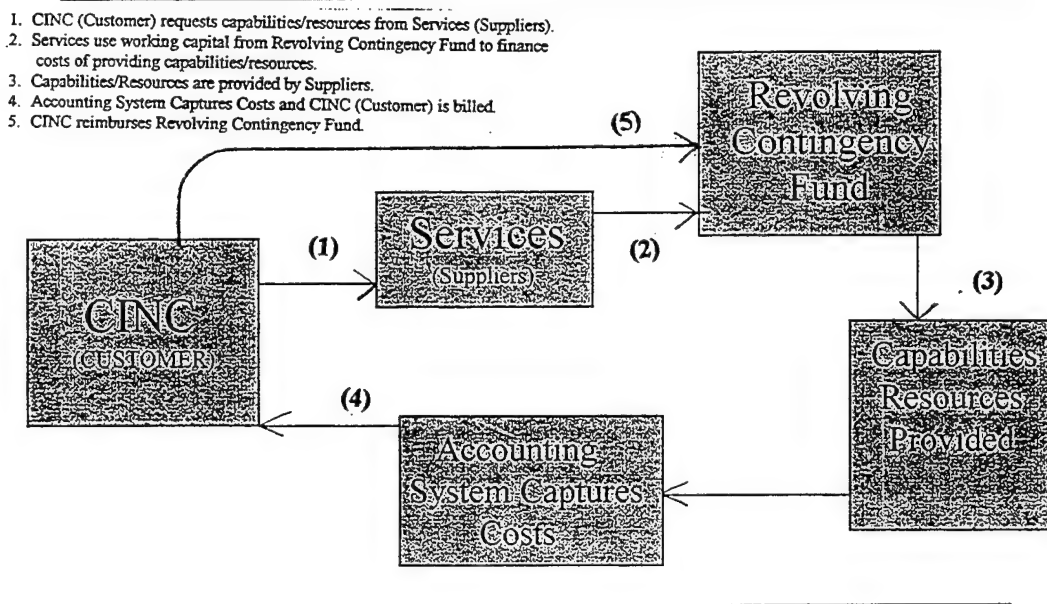


Figure 4.8 Mission Financing Accounting Cycle

The advantage of having CINC's purchase capabilities from AFPs is that it provides an incentive for all the Military Branches and Services to both compete and work together to find complimentary resources.⁷ Adaptive Force Packages successful in "selling" their services to a CINC are then funded to perform their assigned mission. Depending on the needs of the CINC, the mission might range anywhere on a spectrum from maintaining certain heightened levels of proficiency (i.e., readiness to surge forward on short notice) to immediate action in a MRC. As the AFP performs its duties, the CINC evaluates and modifies its requirements to adapt to changing environmental and operational requirements.

4. Advantages of a Mission Financing Approach

a. Provides for More Efficient Resource Allocation

The Services' operational units that do the best job in meeting CINC requirements are provided with incremental funding. Less capable or less efficient units are not included in force packages, and thus do not obtain funding above levels required to meet basic readiness standards. When the CINCs choose not to utilize and fund certain operational units, the following outcomes are possible:

- > The unit can offer capabilities to a different Geographic CINC. It is possible that the mission capabilities required in one AOR may differ from the requirements of another region.
- > The unit can adapt itself better to the potential customer's needs, (i.e., CINC requirements) and reoffer the "new and improved" capabilities for consideration.
- > If a unit is consistently unable to provide the right mix of mission capabilities at the right cost, then the Service of which that unit is a part may decide to divert vital resources away from that unit and toward units that show more promise in meeting CINC needs.

Each of these actions mirror what would happen in an efficient competitive market. Organizations that provide products and services in demand are rewarded, while less responsive organizations that produce goods no longer meeting customer needs face declining market share and eventual elimination.

Another possible result of an operational unit's failure to meet CINC needs is that it still may be in the nation's long-term national security interests to maintain that unit's capabilities at established levels. An example of this might be the long-term need for strategic deterrence. The CINCs would probably be more interested in allocating resources to meet immediate regional concerns than in financing submarine, land, and long-range bomber strategic weapon capabilities. In these situations, the JCS would make recommendations to the OSD on the necessity for maintaining such capabilities.

In summary, mission financing would provide incentives for operational and support units to become more adaptive and cost effective. Financing would be two-tiered. First, units would be budgeted to meet basic readiness standards from the Military Departments and secondly, the CINCs would finance training and operations to meet their regional needs. Finally, those units unwilling or unable to adapt to changing requirements would tend to wither on the vine. The result would be a more efficient allocation of defense resources.

b. Mission Financing and The Four "Pillars" of DoD Resource Allocation

Top level officials use the concept of the four "pillars" when considering the soundness of a resource allocation policy. These four "pillars" can be thought of as legs of a table. If one of the legs is weak, then the table is in jeopardy of collapsing. The four pillars are described below.

The Four Pillars of Sound DoD Resource Allocation

- 1. Readiness and manpower** issues address the availability and competence of personnel to operate equipment and perform missions.
- 2. Sustainability** refers to the availability of spare parts and other essential support items which enables a unit to sustain operations in a combat environment.
- 3. Force Structure** relates to the quality and type of forces that would result from funding certain programs.
- 4. Modernization** issues involve the investment in new weapons and equipment.

Mission financing provides incentives to stimulate the military to properly address each of these "pillars". However, instead of allocation decisions made by centralized Pentagon

PPBS planners, as is currently the case, customer or CINC needs in support of national security requirements are the drivers for resource allocation.

C. SUMMARY

This chapter defined the Combatant Commanders as responsible for the successful accomplishment of contingency operations and made a case for considering an alternative to the status quo to better match budgetary authority to CINC responsibilities.

Contingency operations were defined as CINC-directed events producing incremental costs above those budgeted for normal operations. This is viewed as a first step in establishing a cost accounting system to accurately track all costs associated with contingency operations. With this accounting system in place, mission financing is introduced as a method to improve the match between CINC responsibilities and budget authority. This approach would produce a more efficient resource allocation system. Finally, a model for the use of mission financing was presented and its inherent advantages explained.

Given future budgetary constraints, the increasing likelihood of contingency operations, and the dynamic state of the strategic environment, it is vitally important to choose the best combination of resources and technology to meet future national security objectives. It was argued that mission financing, supported by an accurate and timely cost accounting system, would provide a better means for meeting these challenges than the status quo system of planning, programming and budgeting employed by the Department of Defense.

ENDNOTES

- ¹ Interview with Susan Weeks, Defense Logistics Agency, DLA Integrated Data Bank Administrator, 8 April, 1997.
- ² An unexpected operational event which generates incremental costs above what was budgeted to sustain readiness levels at established thresholds.
- ³ ACOM also has responsibility for joint training.
- ⁴ An Adaptive Force Package (AFP) is an operational unit or set of units (that may be from different Services) that provides mission capabilities for a CINC. The AFP would constantly change (adapt) to meet the needs of a changing environment in the CINC's geographic region. AFP requirements, as developed by the CINCs, would be updated as needed and these new needs would be available to other potential resource providers who may be able to find a better or more efficient way of doing things. Since mission capability providers are in competition with one another, this system provides incentives to constantly improve, adapt, and make more efficient use of available resources.
- ⁵ By utilizing advances in Information Technology (IT), this could be done electronically and in real time.
- ⁶ This type of arrangement obviously requires an effective information and cost accounting system. Less than ten years ago this system would not have been plausible, but both advances in microcomputer capabilities and the increased need (i.e., the change in the strategic environment) make such a system both feasible and necessary.
- ⁷ An example of an Adaptive Force Package follows: In the Summer of 1993, a Navy P3 squadron initiated an exercise with a B52 squadron. This set of resources and capabilities (or AFP) combined the advantages of the B52s' long legs and heavy lift capabilities with the P3s targeting and communications abilities to create a low cost standoff weapon delivery and Battle Damage Assessment (BDA) system that was capable of rapid response, continuous on-station presence, and real time two way Command and Control capabilities. This was a combination of capabilities that could not be found in any one Service's operational units.

V. CONCLUSIONS

A. SUMMARY OF FINDINGS AND RECOMMENDATIONS

The purpose of this thesis was to determine if current methods of financing contingency operations are appropriate to meet the national security needs of the post Cold War strategic environment. In order to reach a conclusion on this question, the findings on the secondary research questions are summarized below.

- 1. How has the strategic environment changed since the end of the Cold War, and what effect has this change had on the scope and frequency of contingency operations?**

Since the end of the Cold War, the strategic environment has changed in significant ways and these changes are having a profound effect on the Pentagon's way of doing business. Force structures can no longer be built around past threat assumptions. Declining defense budgets are forcing a search for the most efficient use of dollars, and contingency operations are on the rise for at least four reasons.

- > Cold War era concerns about global conflict escalation and nuclear retaliation no longer play as important a role in constraining commitment of U.S. forces.
- > As international humanitarian disasters and peacekeeping obligations occur that outstrip the capabilities of every other organization or government, the U.S. is increasingly turned to for leadership.
- > Factors of disease, arms transfers and economic scarcity are increasingly contributing to the political and economic breakdown of Third World nation states around the world. In an effort to support budding democracies, U.S. forces are now more likely to be called upon to assist in these situations.

> The concept of force use has changed from the rigid guidelines of the Weinberger Doctrine to a much more flexible concept. This change in attitudes about force use makes today's strategic environment more fertile ground for commitment of U.S. troops abroad.

These factors add up to an astonishing expansion in unplanned and unbudgeted operations. This is documented in Figure 2.7 that shows the dramatic increase in U.S. participation in UN operations, and in Appendix C where over the last five years nearly 100 unbudgeted contingency operations have accumulated significant but unidentifiable costs.

2. How Have Recent Contingency Operations Been Financed?

The first method of financing contingency operations is by the loss of previously planned and budgeted training and readiness opportunities. When U.S. Armed Forces are directed to conduct a contingency operation, the decision has already been made, whether explicitly or not, to forego the use of those forces somewhere else. If the operation involves disaster relief or nation building, then the forces are committed to a mission that is outside their primary purpose. Not only are the forces involved in contingency operations unable to maintain combat proficiency, but as funds are shifted to pay for the operation, nondeployed units, who should be working up to deployment capable readiness levels often find training accounts drained and are thus also unable to carry out planned exercises intended to sharpen warfighting skills. The result is a decline in either current or future military capabilities. Below is a summary of the contingency operation financing cycle.

The Contingency Operation Financing Cycle

(1) The PPBS System allocates resources based on planned needs of the Services to meet national security requirements.

- (2) An unplanned and unbudgeted mission is assigned.
- (3) The Military Services provide assets to accomplish the mission.
- (4) The costs of the mission are initially paid with O&M funds from current quarter apportionments. When those funds are exhausted, O&M funds are "borrowed" against future quarters.
- (5) When O&M funds for the fiscal year are exhausted, funds are reprogrammed from "lower priority" accounts. These reprograms include maintenance and capital accounts, and transfers from sister Services not even involved in the contingency.
- (6) These actions cause procurement and construction activities to be delayed, stretched and cancelled.
- (7) As a contingency operation causes equipment (airplanes, ships, trucks, etc.) to be used at a faster rate than originally anticipated, maintenance requirements are accelerated and next generation replacements are needed sooner.
- (8) As life cycle estimates are shortened for capital equipment, funds are also being funnelled away from the very multi-year appropriations that are intended to fill these rapidly approaching future needs.
- (9) Readiness and military capabilities suffer.

Other Conclusions On Contingency Operations Financing

The Military Services do not have a firm grasp on the costs associated with contingency operations. Direct costs such as fuel, Meals Ready to Eat (MREs) and special duty pay are readily observable and much more likely to be accounted for. On the other hand, indirect costs such as accelerated depreciation and the costs associated with increased levels and periodicity of maintenance are less likely to be captured.

There will certainly be times when it is in the nation's vital interests to commit U.S. forces to contingency operations not involving their primary role. But, when this does happen, it is important to have an understanding of all the costs involved. An analysis of

these costs should include the opportunity costs of lost training, readiness and warfighting potential.

Moving funds from inventory and capital goods accounts (e.g., OP, SCN, APN, RDT&E) into expense accounts (e.g., MPERS and O&M) to pay for contingency operations is simply bad business. This practice could be compared to an individual having funds allocated to a house or car payment, and using that money to pay for groceries and the electric bill. Neither the DoD nor that individual reveal sound fiscal management, and both are jeopardizing the future just to get through another "pay" cycle.

Even with supplemental appropriations, some indirect and undocumented costs of contingency operations are absorbed by the Services. This adds to the mismatch between military capabilities, readiness, (either current or future) and ultimately the ability of the Services to meet national security requirements. Executive Branch policy makers and legislative branch funders want and deserve DoD feedback systems that accurately portray the costs in taxpayer dollars and military readiness of a potential or ongoing contingency operation. Current systems are not doing this satisfactorily.

3. Is there an alternative and more effective approach for financing contingency operations to meet the needs of the new strategic environment?

Chapter IV defined the Combatant Commanders as responsible for the successful accomplishment of contingency operations and made a case for considering an alternative to the status quo to better match budgetary authority to CINC responsibilities.

Contingency operations were defined as CINC-directed events producing incremental costs above those budgeted for normal operations. This is viewed as a first step in establishing a cost accounting system to accurately track all costs associated with contingency operations. With this accounting system in place, mission financing is introduced as a method to improve the match between CINC responsibilities and budget authority. This approach would produce a more efficient resource allocation system.

Finally, a model for the use of mission financing was presented and its inherent advantages explained.

In conclusion, given future budgetary constraints, the increasing likelihood of contingency operations, and the dynamic state of the strategic environment, it is vitally important to choose the best combination of resources and technology to meet future national security objectives. It was argued that mission financing, supported by an accurate and timely cost accounting system, would provide a better means for meeting these challenges than the status quo system of planning, programming and budgeting employed by the Department of Defense.

B. RECOMMENDATIONS FOR FURTHER RESEARCH

The scope of this thesis was limited primarily to an analysis of the environment, a study of how we are currently doing business in this environment, and a strategy for financing contingency operations in a way that will more efficiently match resources with national security needs. To build momentum for meaningful change in the proper allocation of resources for contingency operations, it is hoped that further research can be conducted in the following areas:

- > The development of a reliable system for evaluating and reporting readiness (possibly based on output measures of effectiveness vs the currently used input measures).
- > The status of the military's progress toward a common accounting and database system.
- > The development of cost accounting and reporting standards for accelerated depreciation of capital equipment involved in contingency operations.
- > How DoD financial management initiatives match with operational initiatives such as Joint Vision 2010.

- > The role that advancing technology has on the speed and accessibility of cost information for decision making.
- > How to convert a viable strategy (mission financing) into reality. This thesis has attempted to explain mission financing in a way that was sufficiently clear to make the strategy operational. But, more efforts are needed to break down this strategy into substrategies and action plans. Also, the mechanics of reworking budgets, changing policies and modifying procedures remains. This is an area of research rich with opportunity and potential rewards.

Further analysis of the strategic environment also is encouraged. The strategic environment is dynamic, complex, uncertain and rich in detail. By periodically and critically reassessing the validity of assumptions about the environment, we are more likely to develop sound financial strategies that meet the national security needs for today and for the future.

APPENDIX A

GLOSSARY

ALLOCATION--The first subdivision of an apportionment. An authorization by a designated official of a component of the Department of Defense making funds available within a prescribed amount to an operating agency for the purpose of making allotments.

ALLOTMENT--The authority to obligate and expend funds for a particular purpose. Used for all appropriations except the accounts that use operating budgets.

APPORTIONMENT--A determination made by the OMB which limits the amount of obligations or expenditures which may be incurred during a specified time period, for a specific activity, function or project.

APPROPRIATION--Provides a specific amount of funds to be used for designated purposes.

AUTHORIZATION--Congressional legislation that is normally a prerequisite for subsequent appropriations, but does not provide budget authority.

COCOM--The authority of a combatant commander to perform the functions of command over assigned forces involving organizing and employing commands and forces, assigning tasks, designing objectives, and giving authoritative direction over all aspects of military operations, joint training and logistics necessary to accomplish the missions assigned to the command.

OPCON--Includes authoritative direction over all aspects of military operations and joint training necessary to accomplish missions assigned to the command.

TACON--Local direction and control of movements or maneuvers necessary to accomplish assigned missions or tasks.

OUTLAY--An actual cash payment.

REPROGRAMMING--The transfer of funds between programs of an appropriation; a shifting of funds from the original purpose for which they were justified by Congress.

SUPPLEMENTAL APPROPRIATION--An appropriation enacted as an addition to a regular annual appropriation act. Supplemental appropriations provide additional budget authority beyond original estimates for programs or activities.

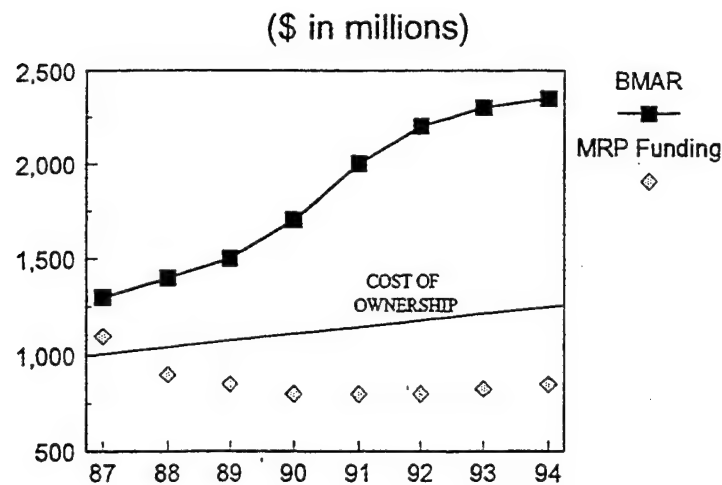
TRANSFER AUTHORITY--The authority provided by Congress to move budget authority from one appropriation to another.

Sources: Naval Postgraduate School Handbook for Practical Comptrollership, March 1996.

APPENDIX B

THE EFFECTS OF REPROGRAMS AND TRANSFERS

During research of financing sources for contingency operations, the term "lower priority items" was seen often but is something of a question. The evidence shows that when a contingency operation is assigned to a CINC, it automatically becomes of highest priority. If funds are expended in accomplishment of this mission and no additional funds are provided to reimburse the Services for this expenditure, then **any** funds not already obligated become "lower priority." The point is, the words "lower priority" seem to carry the same meaning as "not necessary" while what it really means is "not yet obligated and thus available to pay for the unexpected but already expended costs of an assigned mission." Also, these "lower priority" accounts used to finance contingency operations do have a significant effect on combat readiness and capabilities. The effect of diverting funds from these "lower priority" accounts could be either short term and direct such as loss of steaming, flying or training opportunities, or the effect could be long-term and indirect such as delays in maintenance, reductions in "quality of life" or increased optempos. Whether near-term or long-term, these costs must be absorbed somewhere. It is up to the Services to document and present this information to DoD, Executive and Legislative decision makers. One of these "lower priority" accounts where funds have been transferred from is Maintenance of Real Property (MRP). Figure B1 shows the status of this "lower priority" account.



Navy-Wide Backlog of Maintenance and Repair (BMAR) Is Large and Growing While Maintenance of Real Property Remains Below Cost of Ownership

Source: Practical Comptrollership, 1996, p. M-6

Figure B.1 Navy BMAR vs MRP Funding

As can be seen above, the gap between requirements and funding started in FY 1987. But, because of the long-term of execution for many construction and maintenance contracts, the effects on mission support capabilities may now just be starting to show. Note that 1987 also marks the beginning of the strategic shift away from a bipolar world and into the period of increasing requirements for contingency operations to support national security requirements.

The BMAR (Backlog of Maintenance and Repair) is an indicator of the estimated dollar deficiencies of base facilities. This is determined in an annual inspection known as the Annual Inspection Summary (AIS). The AIS compares material condition of facilities against minimum standards for the assigned mission. This "lower priority" account shows a large and growing backlog of maintenance requirements. Also shown is MRP Funding lower than actual cost of ownership. This "cost of ownership" is based on an

unreasonable assumption of zero inflation and thus is already understated. The result is a visible deterioration of facilities due to lack of maintenance dollars and an inevitable decline in future combat capabilities of operational units which these facilities support.

The business manager of a major PWC commented that the Navy's facility condition is a result of nearly a decade of decline wherein buildings have not been painted, roofs were not repaired and grounds not maintained. Referring to a major Navy facility's physical condition, he said: "Take a look around, [unless methods or priorities change] this is the best you'll ever see it" (Practical Comptrollership, 1996, pp. M-7). If current financing methods continue, the increased likelihood of contingency operations will likely contribute to this bad situation. Some decisions that look good in the short term can have disastrous long term consequences. Deferring maintenance to pay for today's unbudgeted contingencies is a good example.

APPENDIX C

GROWTH OF UNBUDGETED CONTINGENCY OPERATIONS

CJCS PROJECT CODE	PROJECT/OPERATION	FROM	TO
3JA	HAITI ASSIST GROUP	NA	NA
3JB	BRAC FY93	10/7/93	9/30/98
3JC	ELECTRO-MECHANICAL LOCKS		9/30/96
3JD	DRAWDOWN PALESTINIAN POLICE	4/1/94	12/31/94
3JE	DRAWDOWN PALESTINIAN POLICE	5/15/95	1/31/96
3JF	BRAC FY95	10/1/95	9/30/01
3JG	DRAWDOWN HAITIAN POLICE TRNG	6/23/95	9/30/96
3JH	DRAWDOWN JORDAN	2/26/96	12/31/96
3JI	DRAWDOWN BOSNIAN E&T	7/11/96	6/30/97
3JJ	DRAWDOWN CUCVS LAOS	8/19/96	1/31/97
3JK	DRAWDOWN FRONTLINE STATES	10/10/96	5/31/97
3JL	DRAWDOWN ECOMOG	10/10/96	5/31/97
3JM			
3JN	DRAWDOWN COUNTER DRUG MEXICO	12/12/96	12/31/97
3JO	DRAWDOWN TURCOMAN FORCE	12/13/96	8/31/97
3JP	DRAWDOWN 552C ECOMOG	12/27/96	8/31/97
3JQ	DRAWDOWN HAITI PALACE SUPPORT		
9FIF	OPERATION GUARDIAN RETRIEVAL	3/20/97	9/30/97
9FJH	OPERATION SILVER WAKE	3/14/97	8/31/97
9FG	OPERATION PRESENT HAVEN	2/8/97	3/25/97
9FF EUCOM	OPERATION JOINT GUARD (SPOR)	12/15/96	12/31/97
9FE EUCOM	OPERATION GUARDIAN ASSISTANCE	11/14/96	4/30/97
9FD PACOM	OPERATION MARATHON	10/9/96	12/12/96
9FC PACOM	OPERATION PACIFIC HAVEN	9/15/96	1/31/97
9FB CENTCOM	OPERATION DESERT FOCUS	7/20/96	7/31/97
9FA CJCS	KHOBAR BOMB ATTACK ASSESSMENT	6/28/96	9/30/96
9EZ STRATCOM	TACAMO LOG SUPPORT TEAM	7/1/96	7/1/99
9EY PACOM	USFK MOV TARGET INDICATOR	6/7/96	6/1/97
9EX EUCOM	QUICK RESPONSE CEN AF REP	5/20/96	5/1/97
9EW EUCOM	ASSURED RESPONSE LIBERIA	4/9/96	4/8/97
9EV EUCOM	JOINT ENDEAVOR IFOR BOSNIA	10/27/95	12/31/96
9EU CENTCOM	BRIGHT STAR EX (EGYPT)	10/10/95	12/31/95
9ET SOUTHCOM	NUEVOS HORIZONTES EX	10/1/95	9/30/96
9ES USACOM	ASSIST HURRICANE MARILYN	9/16/95	11/29/96
9ER SOUTHCOM	PANAMA CANAL TREADY	9/8/95	1/5/96
9EQ USACOM	ASSIST HURRICANE LUIS		
9EP USACOM	STAND OFF/MONITOR CUBANS	3/1/96	2/1/97

9EO USACOM	ASSIST MONTSEERRAT	9/1/95	7/1/96
9EN USACOM	RETRO UNMIH MATL (HAITI)	7/21/95	7/1/96
9EM	RESERVED FRY NOT ISSUED		
9EL PACOM	PROMPT RETURN (CHINA)	7/23/95	9/27/95
9EK PACOM	JTF-FULL ACCOUNTING	6/30/95	4/17/96
9EJ EUCOM/DSAA	DRAWDOWN RRF (FRY)	6/30/95	11/30/96
9EI USACOM	RETRO SEA SIGNAL MATL	6/9/95	11/30/96
9EH	DARING LION (FRY) NOT ISSUED		
9EG USACOM	FAIRWINDS EX (HAITI)	5/18/95	11/30/96
9EF	NOT ISSUED		
9EE	NOT ISSUED		
9ED EUCOM	DETERMINED EFFORT	4/1/95	1/17/96
9EC USACOM	UNMIH (HAITI)	2/28/95	9/30/96
9EB SOUTHCOM	SAFE BORDER E/P	2/14/95	11/30/96
9EA	JAPAN EARTHQUAKE	1/18/95	6/30/95
9DZ	ASSIST ST.KITTS	11/14/94	3/31/95
9DW USACOM	GTMO CAMP IMPROVEMENTS	11/8/94	1/17/96
9DV DISA	YOKOTA RED SWITCH	11/7/94	12/31/94
9DU USACOM	DRAWDOWN INTL POLICE MONITOR	9/21/94	9/27/96
9DT USACOM	DRAWDOWN MULTINAT COALITION	9/21/94	9/27/95
9DS USACOM	UPHOLD DEMOCRACY (HAITI)	9/8/94	5/31/96
9DR USACOM/DSAA	CARICOM TRAINING	9/5/94	9/27/95
9DQ SOUTHCOM	SAFE HAVEN PANAMA	8/27/94	8/31/95
9DP USACOM	MOD SEA SIGNAL INC CUBANS	8/20/94	5/31/96
9DN	BOSNIAN FEDERATION NOT ISSUED	NA	NA
9DM	LEGACY FREEDOM NOT ISSUED	NA	NA
9DL USACOM	DRAWDOWN JAMAICA	8/8/94	2/15/95
9DK DSAA	DRAWDOWN RWANDA	8/19/94	4/30/96
9DJ SOUTHCOM	FUERTE CAMINO EX	10/1/94	9/30/95
9DI USACOM	MAINTAIN DEMOCRACY (HAITI)	9/8/94	9/14/94
9DG USACOM	DRAWDOWN DOMINICAN REPUBLIC	7/15/94	1/15/95
9DF PACOM	FLEX OPTIONS (KOREA)	6/12/94	9/27/95
9DD USACOM	SEA SIGNAL (HAITIANS IN CUBA)	5/12/94	5/31/96
9DD	NOT ISSUED		
9DC DA	USA CONTINGENCY LOG SPT GRP	5/13/94	5/31/96
9DB SOUTHCOM	FUERTE CAMINO 94 COLOMBIA	12/23/93	9/30/94
9DA	JUS-FSU CTR	6/13/94	6/30/96
9CZ SOUTHCOM	FUERTE CAMINO 94 EL SALVADOR	11/29/93	9/30/94
9CY SOUTHCOM	FUERTE CAMINO 94 GUATEMALA	10/20/93	9/30/94
9CX USACOM	SUPPORT DEMOCRACY HAITI	10/19/93	10/31/94
9CV SOUTHCOM	FUERTE CAMINOS 93 SOUTH	8/18/93	11/30/93

9CU EUCOM	ABLE SENTRY (MACEDONIA)	6/28/93	10/31/96
9CT EUCOM/DSAA	UNPROFOR FMS	6/28/93	4/17/96
9CS CENTCOM	UNOSOM II (SOMALIA)		
9CR EUCOM	DECISIVE EDGE/SHARP GUARD	6/28/93	10/31/96
9CP CENTCOM	RESTORE HOPE (SOMALIA) UN	12/7/92	12/31/93
9CO SOUTHCOM	PREVAIL REFLEX (COLOMBIA)		
9CM CENTCOM	RESTORE HOPE (SOMALIA) US	12/5/92	11/30/94
9CL EUCOM	PROVIDE PROMISE (FRY)	6/28/93	10/31/96
9CK CSA	HURRICANE INIKI	9/13/92	9/30/93
9CJ CSA	HURRICANE ANDREW	9/4/92	12/31/92
9CH SOUTHCOM	FUERTE CAMINOS 93 PANAMA	10/1/92	8/30/93
9CG SOUTHCOM	FUERTE CAMINOS 93 BELEZE	10/1/92	8/30/93
9CF SOUTHCOM	FUERTE CAMINOS 92 BOLIVIA	6/1/92	9/30/92
9CB CENTCOM	PATRIOT BATTERIES (SWA)	7/31/92	11/30/96
9BY EUCOM	PROVIDE COMFORT (N IRAQ)	4/10/91	6/30/96
9BU CENTCOM	SOUTHERN WATCH/VS (SWA)	8/7/90	11/30/96
9BT SOUTHCOM	JUST CAUSE (PANAMA)	11/14/89	11/30/89
9BN	DISPLAY DETERMINATION 89 EX	4/1/89	11/1/89
9BM CENTCOM	SAFE PASSAGE	1/13/89	1/31/90
9BC CENTCOM	RSAP	11/19/87	5/31/88
9AW EUCOM	BERUIT AIR BRIDGE	9/16/86	6/30/96
9AU CENTCOM	DESERT EXPRESS	8/17/90	6/15/91
9AE CENTCOM	EARNEST WILL/Protect Shipping	7/15/87	6/15/91
9AD PACOM/J3ROD	PONY EXPRESS	6/26/87	5/31/96

APPENDIX D

STRETCHING OF PROGRAMS ADDS GREATLY TO COSTS

Design-to-Cost assumptions, previously based on original production quantities and rates prove incorrect and cause costs per unit to rise. Below is an example of how stretches have caused costs for the Seawolf Submarine program to spiral from \$1.5 billion/unit to \$5.2 billion/unit.

Costs Rise as Programs are Stretched

<u>Anticipated Number of Ships</u>	<u>Cost per Ship</u>
29	\$1.5 B
12	\$2.8 B
2	\$5.2 B

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